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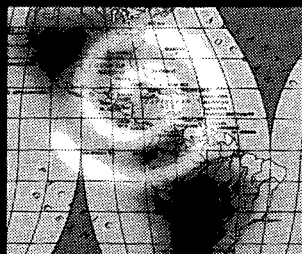
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Subscription rates:

one year \$17.95 (\$24.95 foreign); two years \$32.95 (\$46.95 foreign).

Postmaster, send address changes to:

The Brookings Review,
1775 Massachusetts Ave.,
N.W., Washington, D.C.
20036

Subscription queries:

(800) 257-1447
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Advertising sales:

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U.S. newsstand distribution by:

Ingram Periodicals Inc.
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La Vergne, Tenn. 37086
(800) 627-6274 (ext. 4500)

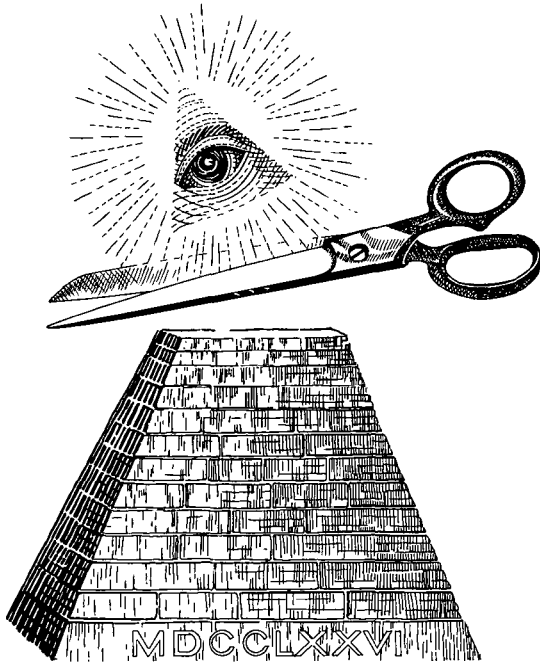
The Brookings Review

(ISSN 0745-1253)
is published quarterly by
The Brookings Institution.

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Design and art direction by
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The Capital Gains Tax Cut: Not So Fast!



■ Henry Aaron ("The Capital Gains Tax Cut: Economic Panacea or Just Plain Snake Oil?" summer issue) skirts some big-picture issues relating to capital gains taxation: the incentives to new business to grow and prosper, positive effects on the equity market and economy from lower capital gains taxes, and the competitive position of the United States versus other industrialized countries.

To tell the full story of how a capital gains tax cut can stimulate economic growth, analysis must take account of the full dynamic systems effects of capital gains taxation on financial markets and the economy. But Aaron's analysis (technically, a partial equilibrium approach), rather than accounting fully for systemwide feedback effects of a capital gains tax cut on economic growth, tax receipts, saving, and the debt-equity structure of finance, is restricted to static notions of economic growth starting with the microeconomics of ex-post saving and investment.

Among other things, Aaron's approach fails to take into account the incentive effects of a lower capital gains tax rate on new business, the "animal spirits" of entrepreneurs, the potentially strong positive effects on the stock market and net worth of households, the lower cost of equity financing for business, and the higher after-tax return to saving. The result would be stronger growth, more saving, more capital spending, and more tax receipts than Aaron's analysis might suggest.

Two other points deserve mention. First, although the United States now taxes capital gains and ordinary income at the same rate, there have been periods in our country's recent past when capital gains were taxed at significantly lower rates than ordinary income. Those periods have been consistently associated with strong and dynamic growth in the U.S. economy. Correlation does not prove causation, but such an association cannot easily be dismissed. Second, other

countries—and there are many—that do not tax capital gains at all or that tax them at much lower rates than ordinary income have a competitive advantage relative to the United States.

At the least, capital gains taxes should be indexed for inflation in order to help change the existing distortion between debt and equity finance. At a minimum, differential taxes favoring capital gains ought to be applied to promote new business development and to subsidize long-term investments in "productive," even targeted industries. At a minimum, incentive effects to induce a switch of debt to equity through both demand and supply would be helpful in financing the kind of economic growth that can dynamize the economy.

Of course, there are other policies that, when arrayed against capital gains tax reductions, certainly can do more to encourage growth than a capital gains tax cut. Examples include easier money, a permanently low profile of interest rates, and greater infrastructure spending. And, of course, given the distribution of asset holdings among various income classes in the United States, the fairness issue that Aaron emphasizes is a real one. But capital gains tax reduction has much more to offer and deserves a fairer hearing than given.

*Allen Sinai,
The Boston Company*

Capital Gains: A Vote for More Accurate Titles

■ The title to Henry Aaron's recent article (summer issue) asks: "The Capital Gains Tax Cut: Economic Panacea or Just Plain Snake Oil?" I know of no one who argues the former. In alleging the latter, the *Review* implicitly ridicules some of the nation's most prestigious

economists. Martin Feldstein, John Shoven, Michael Boskin, Allen Sinai, and a host of other respected economists favor a cut in capital gains tax rates for one or more of a number of reasons.

First, lower taxation of capital gains (in reality a tax on the retained corporate earnings that furnish a large part of the saving for business investment) would reduce capital costs and thus foster productive investment—a goal now applauded by both political parties and presidential candidates. Shoven and Sinai estimate that halving the rate would cut the user cost of capital upwards of 7 percent.

Second, lower capital gains tax rates would encourage entrepreneurship and new business startups. Investors who furnish the necessary risk capital seek after-tax returns high enough to justify the considerable risk involved.

Third, the tax hits heavily at phantom income—gains from inflation. This is wholly at odds with American ideas of fairness.

And fourth, capital gains taxes in the United States are much higher than in most other industrial countries. Do our competitors know something that we do not know?

Aaron would have us think that only rich people enjoy capital gains. In 1985, half of all capital gains were realized by taxpayers with an annual wage income of less than \$50,000. Those gains often represent the results of a lifetime of saving—a small businessman sells his business; a farmer, his farm.

*Mark Bloomfield, American
Council for Capital Formation*

Capital Gains: Economists and Venture Capitalists

■ It is reasonably clear to me that Henry Aaron ("The Capital Gains Tax Cut," summer issue) is an economist and an academician, not a venture capitalist. I can't make the marvel-

lous economic arguments Aaron does. I can only tell you that the rate that taxes are placed on my ventures affects my willingness to take risk. If the rate is as unimportant as Aaron indicates, why was there a flowering of ventures in the late 1970s and early 1980s after Carter tried to raise the tax and Congress, in one of its few shows of wisdom, actually lowered it?

Further, Aaron misses two important points. First, what is the public good in creating a substantial hurdle rate for switching from one investment to another? All that such a tax does (and it can be avoided, as he points out, by waiting until death) is to freeze large amounts of capital, thereby reducing liquidity as well as leaving less money available for riskier ventures. There is, and should be, a hierarchy of risk takers. Higher-income and wealthy individuals should take more risk than widows, orphans, or institutions. As such, it makes little sense to force the former group to hold matured investments.

The second point that Aaron ignores is quality. I am sure his statistics are correct overall, because they're almost axiomatic. However, Microsoft and Apple, to name two great companies, were both started with minimal amounts of venture capital. Frankly, what really counts in creating wealth is hard work, imagination, luck, some money, and a willingness to assume risk. Increasing people's willingness to take risk has to be positive for society as a whole. If this is not so, countries such as Russia would always win. History tells us that isn't what happens.

Thomas L. Kempner,
Loeb Partners

Evaluating the Costs and Benefits of Mass Transit

■ Janet Rothenberg Pack's "You Ride, I'll Pay" (summer

issue), which suggests that the social benefits of public transportation outweigh their subsidy costs, stands in striking contrast to the opinions of another Brookings author, Tony Downs, who writes in *Stuck in Traffic* that "citizens do not believe such [fixed rail transit] systems are really worth the high costs they would have to bear to build them." There are several reasons for these disparate views of the value of public transportation.

First, the benefits of public transit are not evenly distributed throughout a metropolitan area. That this is so is obvious from the way Pack measures commuter rail's value to riders: through estimates of the increased house values in neighborhoods with commuter rail service. Clearly, some people reap the benefits of the system while others do not.

Second, rail systems vary widely in quality and benefits of service. And, not surprisingly, service quality affects the number of people willing to ride public transit (and thus the social value of the service). In Philadelphia, service quality has a big effect on the house value premium associated with commuter rail. The premium associated with PATCO, the rail system that links suburban New Jersey and Philadelphia and that has higher-quality service than the SEPTA system studied by Pack, is three times that of SEPTA.

Third, the value of public transit depends importantly on the desirability of the destination (that is, downtown). Although economists tend to focus on the problem of residential density (Downs, for example: "the low-density settlements preferred by Americans are not suitable to public transit"), there is more to it than that. The market share of public transit in suburban communities depends on the

number of people in these communities who work downtown and thus, in turn, on the relative economic health of the downtown. In Philadelphia, the value of public transit, as reflected in suburban house value premiums for commuter rail service, is very tightly linked to changes in employment downtown.

Fourth, the social value of public transportation is necessarily measured in the context of large subsidies for automobiles that generate the low-density residential patterns that discourage the use of mass transit. Would Americans choose the same low-density development if motorists paid their full cost? I doubt it.

By showing that public transit subsidies may be justified, even in an undercapitalized system with low-quality service, Pack has provided a refreshing perspective on the role of public transit. Had she examined the PATCO rail system, she would have found dramatically higher benefits with substantially lower subsidies.

Richard P. Voth,
Federal Reserve Bank
of Philadelphia

Telecommunications and the Rush to Deregulate

■ Robert Crandall ("Regulating Telecommunications," summer issue) vastly oversimplifies communications markets in his call for deregulation. He argues that in the area of communications, all government regulation is bad and free market competition is the panacea for the American consumer.

While it is clearly preferable for consumers to have competition in all areas of the communications marketplace, an examination of each area individually is required to determine whether the time to deregulate has arrived. There is a great potential for harm to consumers and competitors alike

with premature deregulation.

Cable television presents an example of what can occur when the government deregulates too quickly. After passage of the 1984 cable deregulation act, the largest cable companies dramatically expanded their subscriberships base and purchased a controlling interest in the most popular cable programming. They then blocked competition by refusing to sell their programming or offering it only at outrageously inflated prices. With neither competition nor price regulation, consumers have been hit with basic cable rate hikes approximately three times the rate of inflation, re-tiering schemes that reduce the number of popular stations available on the basic tier, and abysmal customer service.

It benefits neither consumers nor competition to deregulate an industry before the market clearly signals that competition can thrive. Deregulation of all aspects of the communications industry, simply for the sake of deregulation, will lead to increased market concentration, fewer customer choices, higher prices, and inferior service.

Bradley C. Stillman,
Consumer Federation
of America

The Review welcomes comments from its readers and will print them from time to time. Letters should be addressed to the Editor, The Brookings Review, 1775 Massachusetts Avenue, N.W., Washington, D.C. 20036. The letter writer should include his or her name, address, and daytime telephone number. Letters will be edited to conform to style and space.

Integrating Women into the Military

BY EDWIN DORN

Recent, widely publicized incidents of sexual harassment in the military, appalling in themselves, raise broader questions about the services' treatment of women. How, after almost 20 years of experience with an all-volunteer military that offers expanded opportunities for women, can it be that women are so evidently *not* integrated into the military? One way to gain insight into the problem may be to compare the integration of women into the military with the integration of blacks.

In 1948 President Truman issued Executive Order 9981, calling for "equality of treatment and opportunity for all persons in the armed services without regard to race." Blacks had always served in the armed forces, but under rules requiring them to work in segregated units and subservient capacities. Today, most informed observers agree that the military leads the nation in offering equal opportunity to blacks. But it didn't happen overnight.

Equal opportunity policy was implemented slowly, in the face of resistance and ignorance. Four decades ago, arguments were made that the presence of blacks in previously all-white units would inhibit "bonding" and "unit cohesion," and that black and white soldiers had fundamentally different capabilities.

For example, Truman's order produced confusion within the services over what it meant to treat blacks and whites "equally." Did it mean that they should be treated the same or that blacks should be treated according to what many presumed to be their "natural" capacities? Asking blacks to do things for which their race was unsuited, some argued, was unfair. Many racial myths were widely accepted in the 1940s. Some had ludicrous results, such as the segregation of blood supplies and the exclusion of

blacks from flight training. (Blacks were thought not to be smart enough to fly airplanes; they also were thought to have poorer night vision than whites. A flight training program was set up at Tuskegee Institute to test these propositions. The Tuskegee airmen distinguished themselves in combat over Italy during World War II.)

Experience in the Korean war showed that blacks could be integrated into previously all-white units. However, incidents during the 1950s, 1960s, and early 1970s showed that more was needed than simply to put blacks and whites in the same units and hope for the best. Racial conflicts among service personnel in Vietnam, in Germany, and on Navy vessels such as the *Kitty Hawk* led to the establishment of the Race Relations Institute (now the Defense Equal Opportunity Management Institute) and to the development of a series of race relations (now human relations) courses.

A key lesson from the military's experience with racial integration is that tolerance must be taught. Tolerance is not an inherited trait, nor, unfortunately, is it among the values that parents systematically try to instill in their children. Significantly, the U.S. military remains one of the few institutions that gives all of its employees some form of human relations training.

It may be that women in today's military are roughly at the same place that blacks were two or three decades ago. Perhaps the Navy's most recent sexual harassment scandal is what the *Kitty Hawk* incident was: a wake-up call. The Tailhook incident and others made public in congressional hearings last July suggest that a lot of people have been sleeping through their human relations training. Indeed, it seems that a lot of senior Navy officers have been at



sea, literally and figuratively, while a sexual revolution has been occurring on land.

What the military should have learned from its experience with racial integration is that equal opportunity works only if it is enforced strictly, up and down the chain of command. Every army enlistee has heard his or her basic training NCOs say, "I don't see black or white; I only see olive drab." It is a corny line, but the frequency with which it is recited suggests that NCOs take it very seriously. Commissioned officers learn quickly that one way to sidetrack a career is to say or do something that smacks of racial prejudice.

Contrast that with what happened at the infamous 1991 Tailhook meeting in Las Vegas—not during the "wilding" at which dozens of male officers molested women, but earlier during what was supposed to have been a professional meeting. Reportedly, an admiral crawled under a table to avoid

answering a female officer's question about opportunities for women pilots. He thought the gesture was funny. An officer who responded that way to a question about a racial issue probably would be disciplined severely.

Command commitment and accountability, which help ensure fair treatment for minorities, appear not to have been put in place to ensure fair treatment for women. When senior officers make jokes about female officers' career options, they are telling junior officers that women are not to be taken seriously. The laughter will stop when heads start to roll. ■

Edwin Dorn is a senior staff member with the Brookings Center for Public Policy Education. He is the editor of Who Defends America? Race, Sex, and Class in the Armed Services (Joint Center Press, 1989).



A Limited War on Crime That We Can Win

T W O L O S T W A R S L A T E R





Since 1967 the federal government has waged two all-out wars on crime—and, in the view of most observers, lost both. The evidence is most irrefutable in the nation's inner cities. A quarter century of shattered hopes does not breed easy optimism about launching yet another war on crime. But there is no good practical reason to concede the future to the bleak past. Existing limits—political, administrative, budgetary, and intellectual—on federal crime policy may preclude an all-out new offensive. But Washington can push ahead boldly on two fronts.

First, the federal government can expand its drug treatment programs for offenders and extend them to the states. Second, it can help big cities develop community policing programs. By increasing its role in

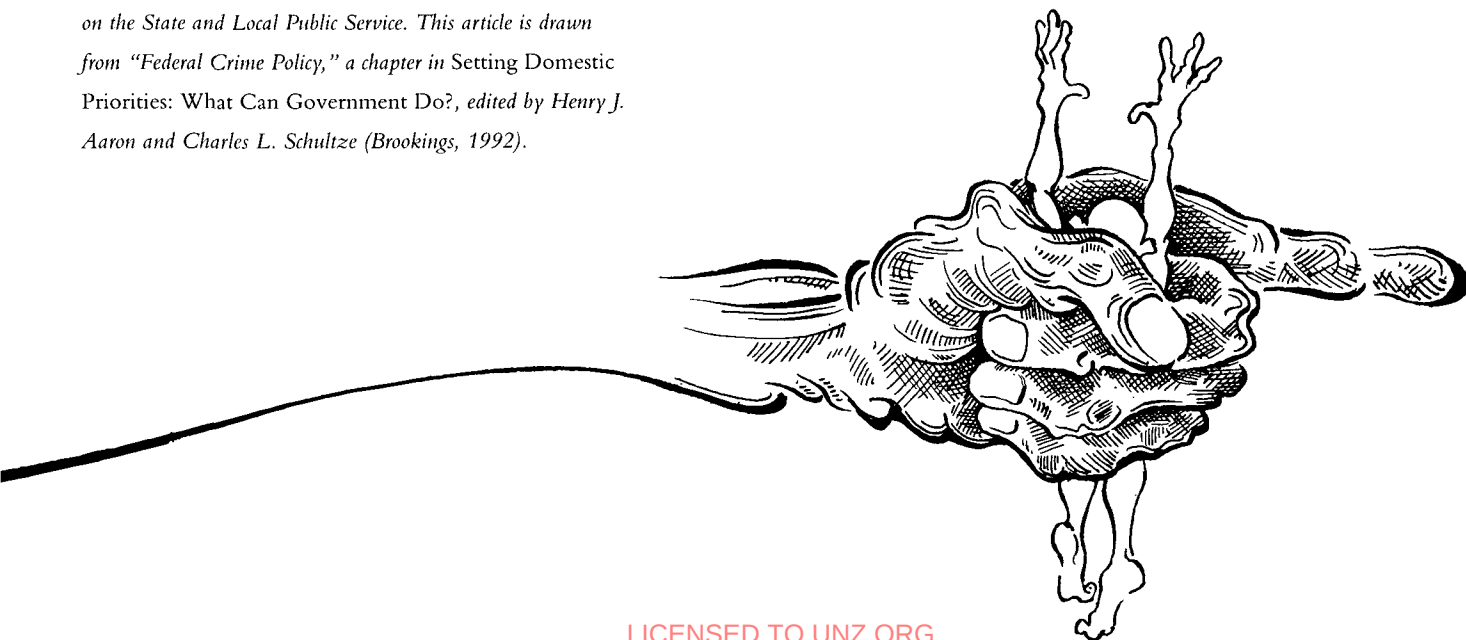
these two areas, the federal government can make city streets safer, repair drug-ravaged lives, invigorate local law enforcement efforts, maybe even save money.

**JOHN J.
DILULIO, JR.**

The First War on Crime

Before Barry Goldwater made his run for the presidency in 1964, crime was not a big issue in American national politics. But once Goldwater had put it at the top of the national agenda, it stayed there. Lyndon Johnson embraced the issue, appointing, in 1965, a Commission on Law Enforcement and Administration of Justice, chaired by Attorney General Nicholas deB. Katzenbach. The commission recommended dramatically expanding the federal role in crime control and attacking the socioeconomic maladies that

John J. Dilulio, Jr., is professor of politics and public affairs at Princeton University and a member of the National Commission on the State and Local Public Service. This article is drawn from "Federal Crime Policy," a chapter in Setting Domestic Priorities: What Can Government Do?, edited by Henry J. Aaron and Charles L. Schultze (Brookings, 1992).



bred crime, especially in urban areas. “Warring on poverty, inadequate housing, and unemployment,” the commission urged in its final report, “is warring on crime.”

In 1968 Johnson appointed a second commission, this one on the Causes and Prevention of Violence, chaired by Milton S. Eisenhower. The commission’s report focused on urban crime. Warning that “increasingly powerful social forces are generating rising levels of violent crime which, unless checked, threaten to turn our cities into defensive, fearful societies,” the report proposed to increase federal spending on urban social welfare programs by \$20 billion a year (in 1968 dollars) and to double federal spending on criminal justice.

Behind a thick fog of conservative political rhetoric, the Nixon administration adopted virtually every major crime policy of the Johnson administration. More quietly, the Ford administration, too, continued to manage the crime policies it inherited.

By 1976, however, crime rates, as measured by the FBI, were far higher than they had been in 1968. During the late 1970s a political and intellectual consensus emerged that the war on crime had failed. Liberals believed that the war had never really been fought, that too much money had gone to low-crime rural areas and to police departments, rather than to addressing the underlying socioeconomic causes of crime in urban areas. Conservatives were convinced that the federal money spent on social programs had been wasted. They believed that crime policy should ensure that penalties for crime were swift, certain, and severe. If crime did not pay, or at least paid less well, then fewer crimes would be committed.

The War on Criminals

In 1981, with the conservative view of crime in the ascendant, the Reagan administration launched a second war on crime. This time the federal government would sound the charge, but the states and localities would have to do most of the fighting—and spending. The Comprehensive Crime Control Act of 1984 was the most important anti-crime package since the Johnson era. It required federal judges to follow new sentencing guidelines, permitted pretrial detention of dangerous defendants, restricted the use of the insanity defense, and increased penalties for drug trafficking.

During the 1988 presidential contest, supporters of George Bush ran the now famous Willie Horton television ad. Although there is no empirical evidence that the ad made any real difference in the election results, it did have some nontrivial political consequences. As Joan Biskupic has noted in *Congressional Quarterly*, it made Democrats “determined to project a tough-on-crime stance.”

During the second half of Bush’s term, the political pressures surrounding the federal anti-crime policy debate grew more intense, reflecting a widespread unease about the effects of the second war on crime. A national political and intellectual consensus began to emerge that the get-tough strategy of the 1980s was failing, especially in the area of urban drugs and crime.

Again, there are two schools of thought about the

second federal war on crime. At the heart of the debate are hard-to-reconcile interpretations of the statistics on post-1980 trends in imprisonment, criminal victimization, and anti-drug law enforcement. On one side are those, usually liberals, who maintain that, together with mandatory sentencing laws, drug-law enforcement has resulted in inhumane, crowded conditions behind bars, unwarranted increases in corrections spending, and no reduction in crime. On the other side are those, usually conservatives, who deny that prison conditions have gotten worse, argue that more prisons have spelled less crime, and reason that the social spending on prisons has been worthwhile.

Few deny, however, that in the 1980s the drug-and-crime problem became the urban nightmare about which the Eisenhower commission had warned. The human and financial toll was immense. The decent, aspiring, law-abiding residents of the nation’s inner cities were being mugged, murdered, extorted. They were afraid to send their children to school or let them go out to play for fear that drug dealers and gang members would prey on their young. For these citizens the second war on crime was lost, and the first was irrelevant history.

The Drug Rehabilitation Front

Amidst the ideological disagreements surrounding the two federal wars on crime, a strong case can be made for a new federal role in advancing drug treatment programs for prisoners.

Federal corrections officials have long known, and numerous studies have confirmed, that drug addiction is a “multiplier” of crime. People who become addicts often commit crimes before they become addicted, but the onset of addiction dramatically worsens criminal behavior.

In 1966, after several decades of experiments with various prison-based drug treatment programs, Congress passed the Narcotic Addict Rehabilitation Act, which ordered in-prison and aftercare for addicts convicted of violating federal laws. But the federal effort soon sputtered in the face of research that challenged the efficacy of drug abuse and other criminal rehabilitation programs. The notion that “nothing works” in rehabilitating criminal offenders gained wide intellectual and political currency.

These studies, however, did not demonstrate that nothing works. Instead, they indicated that criminal rehabilitation programs tended to have ambiguous effects and that the conditions under which programs succeeded were hard to specify or, to the extent that they could be specified, hard to duplicate widely. In the 1980s a new and better generation of studies demonstrated that some types of criminal rehabilitation programs worked under some conditions.

Among the most effective programs, the studies found, were certain types of drug treatment. For example, a 1989 study of four programs for drug-involved prisoners with serious criminal histories found that the programs significantly reduced recidivism rates.

The successful treatment programs had several features in common. Each program stated clearly its rules

and the consequences of breaking them. Program staff showed obvious concern about the welfare of participants. Participants regarded staff members as people worth imitating. And participants were prepared for future problems, including family and job problems.

All of the programs were compulsory. That turns out to be important. The longer an addict stays in a properly structured drug treatment program, the better the chances of reducing drug abuse and crime. But voluntary drug treatment programs have notoriously high dropout rates. Success is most likely, studies show, in *compulsory* prison-based drug treatment programs that provide strict supervision, are offered nine months to a year before the participant's release, and offer meaningful aftercare.

The Bureau of Prisons Program

In 1990 federal prisons held some 59,000 prisoners, about 47 percent of whom had moderate to serious drug abuse problems. Between 1990 and 1992 the federal Bureau of Prisons began to shape drug treatment efforts around four main programs: drug education, drug abuse counseling, comprehensive and pilot residential drug treatment, and transitional services.

All federal prisoners with any history of drug abuse

of its drug treatment regime on participants' behavior both while in prison and up to five years after release. The dozens of existing studies that show how effective prison-based drug treatment can be in breaking the drug-and-crime nexus give one every reason to suppose that this evaluation will be positive and will refine our knowledge about what works in prison-based drug treatment programs.

What is in order now is for the federal government to make these drug treatment programs available to prisoners in every state correctional system in the country—and to pay for them with federal dollars. In 1990 only 11 percent of state prisoners were receiving any drug or alcohol counseling. No one doubts that the number of untreated or undertreated inmates in state prisons is quite high, although it is difficult to know how many have serious but unmet drug treatment needs. It is even harder to assess the quality of prison-based drug treatment programs from one state to the next, but it is clear that they vary widely in methods and quality. Corrections officials in many states have expressed the need to expand their drug treatment programs, but have lacked the funds to train staff, hire specialists, or administer the programs on a day-to-day basis.

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or drug-related crime must participate in 40-hour drug education sessions. By the end of 1992, about 12,000–15,000 prisoners will have been involved in these sessions.

Counseling services, such as Alcoholics Anonymous, group therapy, stress management, and pre-release training, are available at most federal prisons to any inmate who requests it.

Eleven federal prisons have more than 600 inmates in intensive 500-hour residential drug abuse programs involving 280 hours of counseling, 100 hours of wellness training, and supervised aftercare. Three federal prisons offer 1,000 hours of such treatment to some 200 inmates. Plans are to expand the treatment to 31 prisons reaching a total of nearly 4,000 prisoners by the end of 1992.

Throughout the system, transitional aftercare services are available to prisoners in two six-month components, each of which includes family counseling, assistance in finding work, and random urinalysis. One component is provided in community corrections centers; the other as post-release treatment.

The Bureau of Prisons plans to analyze the effects

How Much Will It Cost?

With the federal government taking the lead, all federal and state prisoners can get the drug treatment they need. Because the treatment needs of prisoners are bound to vary widely, it is difficult to estimate a single per-prisoner per-year cost and even more difficult to estimate benefits relative to costs. Still, some crude guesstimates can be ventured.

The Bureau of Prisons drug treatment budget authority increased from \$2.9 million in 1981 to \$9.5 million in 1991, and, as its full menu of drug treatment programs began to come on line in 1992, to \$21.8 million. Annual drug treatment expenditure averages about \$300 for each prisoner. To serve 800,000 state prisoners similarly would cost about \$250 million a year.

That expenditure might be worth the cost in lowered recidivism alone. Given the best single estimate of the median number of crimes committed each year by a typical prisoner (12.5), and the most widely used single estimate of the social cost of a typical crime (\$2,300), the quarter-billion-dollar expenditure would be justified if only a tiny fraction of those treated did

not return to crime. As a bonus, the program would also repair drug-ravaged lives and help make potentially productive taxpayers out of former criminals.

It is impossible to know how much political support a law along these lines might attract. It is encouraging, however, that while the Reagan and Bush administrations emphasized traditional law enforcement measures, they nonetheless supported an expansion in many types of drug treatments, not least of all inside federal prisons. Some key Democratic members of Congress have already called for more of the same measures as well.

The Community Policing Front

Well before the 1992 Los Angeles riots, the systematic and anecdotal evidence in support of community policing served as a bridge between criminal justice policymakers and experts whose positions on most law enforcement issues were anything but kindred. Advocates of community policing dotted almost every point on the ideological spectrum.

The Los Angeles riots, however, may have helped put the need for community policing into broader public focus. The unflattering but accurate image of contemporary policing in most big cities is that of

idents, working with community leaders and groups, coordinating problem-solving activities with other government agencies, and using their authority and resources in ways that the public understands and approves.

Until the 1980s, both the academic research on policing and the experiences of most police professionals militated against community policing. In the early 1970s, for example, Kansas City, Missouri, conducted a “preventive patrol” experiment that allotted to each of three areas a different level of police patrolling. To the surprise of analysts and just about everyone else, at the experiment’s end, criminal activity, reported crime, rate of victimization, citizen fear, and citizen satisfaction with the police were about the same in all three areas. Active auto patrol—beats where cars cruised the streets two to three times more frequently than in the control areas—made no difference at all.

But as with the “nothing works” studies of criminal rehabilitation, a generation of better studies vindicated common sense. According to these studies, although mere increases in auto patrols mattered little, good things seemed to happen wherever police got out of their cars, onto the streets, and into regular contact

The federal government can and should supply the funds to bring community policing to all inner-city residents. It should also change federal drug, firearm, and anti-racketeering laws so that they can be applied to street criminals and gangs.

cops in cruising patrol cars who are physically and psychologically distant from the people of the communities they serve and who are “never around” when needed.

Indeed, in the understaffed Los Angeles Police Department, the image is of cops in helicopters who swoop down on violence-ridden, drug-infested communities, skypolice people whose faces they can hardly see, then vanish, leaving the communities and their troubles untouched.

In Los Angeles, as in other urban areas, big-city policing has evolved into an increasingly high-tech, bureaucratic game of “cops and robbers.” Officers are hired, trained, and promoted mainly according to how well they follow administrative orders, not how well they solve community crime problems, and how quickly they respond to calls, not how resourceful they are in preventing the trouble that brings the calls.

The goal of community policing is to transform big-city policing into a community-oriented game of “cops and citizens.” The image of policing it beckons is of cops on foot patrol, listening to community res-

with citizens in the community. Street crime decreased. The public’s fear of crime abated. Officer morale strengthened. Police-community relations improved.

Some Misunderstandings

As community policing has attracted more public attention, a number of mistaken impressions about the concept and how it might best be applied have gotten into general circulation. Four points about the efficacy of community policing should guide future policy.

First, although it has often been defined as the antithesis of traditional policing, community policing in no way requires a complete overhaul of police bureaucracies or of basic post-Miranda training techniques and procedures.

Second, good policing does not require officers to have college diplomas. Some federal bills to advance community policing have been coupled with efforts to attract recent college graduates to police work. But there is absolutely no evidence that college degree holders make superior police officers or that increasing the number of college graduates in uniform

would make for better community policing. Moreover, some veteran police officers are deeply suspicious of community policing. To link community policing with federal efforts to pin badges on college kids (a "kiddie corps," as some veterans have termed it) might only raise the odds against successful community policing by stirring unnecessary resentment in the ranks.

Third, systematic empirical support for the efficacy of community policing in achieving specific goals remains in short supply. It is still impossible to specify the administrative, legal, budgetary, and other conditions under which particular community policing strategies can reduce crime, reduce citizens' fear of crime, improve police morale, or improve police-community relations. That uncertainty should begin to change, however, as the findings from community policing initiatives conducted by the National Institute of Justice in eight communities are compiled. Evaluation of the projects, all funded by the federal government, will be complete by the end of 1992.

Fourth, although the federal government has already committed itself to community policing through its experimental "Operation Weed and Seed," the program as now structured does little to strengthen community policing.

In Trenton, New Jersey, for example, the experiment was concentrated on four neighborhoods with bad drug-and-crime problems. Small police stations were set up in each neighborhood. Officers got out of their cars and walked beats. They worked with local public school officials, keeping three schools open evenings and weekends as "safe havens" offering educational and recreational programs to neighborhood residents.

In the program's first year, the weeding resulted in 70 arrests of violent criminals and drug dealers. The seeding was to feature mentoring for the area's children, an "adopt-a-school" project whereby state agencies and corporations could give special support to "their" school, and a plan to take forfeited property from drug dealers and give it to the community.

Almost everyone familiar with the program sees the value of efforts made through mid-1992. But resources were inadequate. Too few officers were on the streets to weed. State and local prosecutors lacked legal authority to make federal cases against violent criminals and drug dealers. Within months, many of the weeded criminals returned to the neighborhoods. The seeding efforts also fell short because the community-based police were too few and too poorly trained to coordinate the effort.

No Room for Half Measures

In the 1980s, as the inner city drug-and-crime problem worsened, many police forces contracted. In 1991, hardly a major police force in the country had as many officers as it arguably needed. None had enough to send battalions of officers on foot patrol in its worst neighborhoods.

Community policing requires a full-scale commitment. The federal government can and should supply the funds to bring community policing to all inner-

city residents. It should also change federal drug, firearm, and anti-racketeering laws so that they can be applied to street criminals and gangs.

As James Q. Wilson and George Kelling have suggested, it may be that some inner-city neighborhoods "are so demoralized and crime-ridden as to make foot patrol useless." But we cannot know whether any of our nation's neighborhoods are "unreclaimable" unless and until we devote far more human and financial resources to policing them. Police crackdowns in troubled neighborhoods rarely reduce crime because criminals quickly move elsewhere. We do not know what would happen if they had, in effect, nowhere else to go. It is reasonable to suppose that by doubling or tripling the number of officers on regular duty in and around drug-infested, crime-torn neighborhoods, and by deploying them in accordance with the precepts of community policing, the streets and sidewalks of even the most blighted inner city could be made safe enough for children to play and adults to stroll.

The federal government can see to it that all inner-city neighborhoods are well policed. As Police Chief Reuben M. Greenberg has written, it is possible to "treat people in public housing as if they lived in a country club or upscale apartment." It is possible, but it cannot be done on the cheap.

To get some glimpse of what it might cost, a 20 percent increase in the police forces of the 222 local police departments that in 1990 served populations of 100,000 or more would cost about \$1 billion a year. The social benefits would almost certainly exceed the costs, as would be evident in reduced criminal victimization, revitalized local economies, and enhanced respect for government.

Were the federal government to provide such aid, it would be important to assure that the money goes to police departments, that it is spent on community policing efforts, and that the added manpower is well trained and deployed in the neighborhoods that need it, not used to bolster policing in other parts of the community or simply to reduce the local contribution to spending on police.

A Winnable War on Crime

Responding to crime has been and will continue to be primarily a subnational responsibility. Still, after two wars on crime, the federal government is in a position to shoulder more of the burden for domestic defense. At present, the fraction of the federal budget that goes into criminal justice is trivial, both relative to what is spent on other governmental functions and in light of the political salience of crime issues.

Even in an era of soaring federal budget deficits, for the federal government to invest an additional \$1.25 billion a year in the criminal justice area would hardly break the federal budget. By investing in drug treatment for all prisoners and community policing for all inner-city residents, the federal government can spearhead a limited war on crime that makes city streets safer, offenders less likely to return to crime, local police more effective, and, in the long run, taxpayers less burdened—a war on crime that we can win. ■

HOMELESSNESS

WHY NOTHING HAS WORKED — AND WHAT WILL

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Half a million Americans will spend today living on city streets or in temporary shelters. More than a million will probably do so over the next year. The trickle of men and "bag ladies" surviving on city streets a decade ago has become a steady stream—men, women, children, white, black, Hispanic, mentally healthy, mentally ill.

The problem does not lack notice. The news media spend much air time and newsprint on stories about squalid welfare hotels, cardboard "Hoover-villes," and lives wasting away. Homelessness makes any pundit's list illustrating what ails America. The public considers homelessness one of the nation's most pressing problems and thinks that government should solve it. Local, state, and federal governments form commissions, change policies, and spend billions. Yet homelessness grows.

Why is the problem so intractable? Why don't the obvious solutions work? What can government do?

Who Are the Homeless?

Who counts as homeless depends on what one thinks constitutes adequate housing. Defining homelessness is thus an ethical and political act, not just an analytic one. Many disagreements about homelessness—over its causes, the number of homeless, and ways to end the problem—boil down to how one defines homelessness, that is, to what one thinks is adequate housing.

"Homeless" used to describe people who were transient, poor, socially isolated, and living in the cheap hotels and flophouses on skid row. They had housing, but they didn't have homes. Today, the homeless are "houseless"—they literally cannot expect to have even a flophouse roof over their heads.

They are also extraordinarily poor. The Urban Institute found that single homeless adults averaged less than \$150 and families about \$350 in reported monthly income from all sources, excluding food stamps. Families, usually a woman and two children, make up 20–30 percent of homeless people. About a third of the homeless suffer from severe and persistent mental illness. At least a third abuse alcohol or illegal drugs. Most have multiple disabilities, for example, mental illness and drug abuse. And more than half the homeless are minorities.

Why and How Have People Become Homeless?

Several changes over the 1970s and 1980s may have caused homelessness. Perhaps most important, the stock of affordable rental housing decreased. Cheap single-room-occupancy hotels (SROs), cage hotels, and flophouses virtually vanished. Also, between 1974 and 1985, almost 2.5 million unsubsidized units with rent and utilities below \$300 (1989 dollars) disappeared while the number of poor families without housing subsidies grew by 1.3 million.

At the same time, poor people were less able to afford housing. Urban job opportunities and earnings for unskilled workers took a beating. Average earnings for the bottom 40 percent of all male high school dropouts aged 20–29 fell from \$5,816 in 1973 to \$1,922 in 1986. For the poorest 20 percent of female-

headed families, average cash income in 1989 was only \$2,563, about \$1,000 less than in 1973. And their public assistance declined. Between 1970 and 1992, average AFDC and food stamp benefits for a mother of two with no income fell one-quarter, leaving just \$625 to spend each month on food and clothing as well as shelter.

That state mental hospitals no longer cared for most severely mentally ill poor people caused many to end up on the street. Instead of the hospitals, a system of federally supported community mental health centers was to administer psychotropic drugs and otherwise care for mentally ill people, thereby allowing them to live independently. But fewer than half the centers were built, they were not connected to the discharge planning of state mental hospitals, and hospital admission standards were tightened. As a result, many mentally ill people were not served, as they would have been in the past, and some wound up on the streets. Also, many were able to live successfully in the community until the housing in which they resided, such as SROs, disappeared.

Around this time, the civil rights of alcoholics and the mentally ill were extended. Recognizing that alcoholism is a disease, local governments decriminalized public inebriation. Involuntary institutionalization now requires that a person be mentally ill and likely to harm himself or others. In an earlier era, street alcoholics would have been jailed and the mentally ill hospitalized.

The rise of crack, roughly within the past five years, may have increased and deepened the homeless problem. Compared with earlier drugs of choice, like heroin, crack causes more violent behavior, is more fiercely addictive, and costs as much or more, and so may be more likely to lead to homelessness.

Finally, and perversely, as the supply and quality of homeless services, such as shelters and soup kitchens, improved, some precariously housed people became homeless to get help they could not find elsewhere.

Against the crumbling bedrock of a declining affordable housing supply, homelessness probably occurred in overlapping waves. In the late 1970s, long-term changes in mental health care may have been the primary contributor to homelessness. The recession of the early 1980s, on top of years of falling incomes, pushed young men and young families out the door. Late in the decade, the burst of crack use added to the problem.

The odyssey individuals and families travel in becoming homeless suggests that these large changes in the economy, in policies, and in social behavior do not immediately cause people to show up at a shelter or begin sleeping on the street. Each story begins with a set of predisposing conditions, usually severe poverty. Then something happens—a worker loses a job, a mentally ill person decompensates, drug users turn homes into crack houses, or a building is emptied because of abandonment, arson, or conversion.

Still, the next step is not usually the street. Evicted or otherwise pushed out of a home, the newly homeless travel a circuit of friends, relatives, and others willing and able to provide temporary shelter or to lend money. After a while, most people can contribute

enough to the household to remain there, or they find a place of their own. But for others, having exhausted the good will and resources of kin as well as friends, the final stop is a shelter or the street.

Solutions That Won't Work

One way to end homelessness seems straightforward enough: provide permanent housing for all who are



homeless. But the dynamics of homelessness show why this solution cannot work and why it can even make the problem worse.

Every day, some people begin and others end a spell of homelessness. Some spells are brief, others protracted. Many are permanent. Recent data from New York City, for instance, show that an average of 850 families became homeless—entered a shelter—each month. By themselves 15 percent found housing the first week, 32 percent within a month, and half within three months. At the end of a year, 30 percent had not been able to find housing by themselves. These families were likely to stay homeless unless provided with permanent housing.

Under these circumstances, would giving permanent housing just to all the homeless end homelessness? Experiences in Massachusetts, St. Louis, and New York City show that providing permanent housing for everyone who comes into a shelter would in-

duce a new inflow of people, overwhelming shelters with people trying to gain scarce permanent housing. Realistically, then, there would not be enough housing for all who would become homeless. And if most newly homeless people are likely to find housing on their own, providing permanent housing for them, instead of for people who would never find housing, "wastes" scarce resources.



By contrast, giving permanent housing only to those who have been homeless for a long time (who are expected to remain homeless) will reduce the number of homeless. It is also unlikely to provide perverse incentives. Few people will stay in a shelter for a long time if they can find housing on their own.

Another way to reduce the number of homeless would be to identify people who are likely to become homeless and treat their problems. But too little is known about who is likely to become homeless and about the services likely to help people avoid that fate.

Homelessness is a rare event. Even if all homeless people are from the "extremely poor," only one person in 20 is homeless at any one time. Any prevention effort aimed randomly at this impecunious population would miss the homeless 95 percent of the time. Identifying those who are about to lose their homes or who have recently done so does not help much, as people are likely to double up or find other housing

and not become homeless. And the best (costly) research efforts can identify only 30 percent of those who would have become homeless.

Many programs are trying to prevent homelessness by giving one-time rent, utility, or mortgage payments, counseling, or mediation. Although the programs certainly do help people in need, their ability to prevent homelessness is dubious or unknown. Studies making claims to the contrary are too poorly done to support their assertions.

Practical Problems for Local Policymakers

State and local officials who make and implement homeless policy face three constraints. First, the courts have tried to make homeless policy. But judges are wont to ignore the dynamics of homelessness, and advocacy lawsuits on behalf of some homeless people can make conditions worse for others.

In the early 1980s, for example, the courts forced New York City to guarantee emergency housing for single adults and families. The city opened low-quality dormitory shelters that filled rapidly. When court rulings and state regulatory decisions raised shelter standards, particularly for families, the city relied on welfare hotels. But because some hotels did not meet state standards for housing children, the courts ruled that the city could not use them. Nevertheless, when demand was heavy, families stayed overnight in substandard hotels. Violations mounted and court proceedings were filed. Although the city finally began creating permanent housing and transitional facilities, legal advocates continued to challenge hotel quality and pressed to empty the hotels.

Under pressure, the city government ignored dynamics in allocating housing, frantically placing recently homeless as well as long-term homeless families in permanent housing. As a result, a once diminishing hotel population began to increase.

Money for state and local policymakers has been limited because the federal government has made homeless policy as if the problem is temporary and all solutions are local. The 1983 emergency food and shelter program provided help for people in temporary shelters and was operated by the Federal Emergency Management Agency, whose mission is to provide temporary relief from earthquakes and hurricanes. In 1986 Congress provided funds to create emergency shelters. With the 1987 McKinney Act, the government finally seemed to notice that the problem was not entirely temporary. The McKinney Act provided money for permanent housing for the handicapped homeless, for renovating buildings for homeless people, and for services within permanent housing. But the programs it funds are not coordinated, each has very little money, many are short-lived experiments, and they are distributed across a welter of departments.

Nonprofit organizations, the key and often sole providers of housing and services to the homeless, also constrain local officials. Compared with the public sector, nonprofits are thought to be remarkably efficient. In Washington, D.C., and in New York City, commissions have recommended that local government simply turn responsibility over to nonprofits.

But nonprofits seem so efficient because they are more willing than government to turn away people who will not abide by their rules. Too, they can select people who are less troubled. Thus they can reduce costs. For example, nonprofits do not have the security costs that in a New York City government-run shelter account for a third of operating expenditures.

When independent nonprofits, each with its own philosophy and programs, control service provision, it is very difficult for local policymakers to build a comprehensive, coordinated system. And relying on nonprofits can effectively mean turning away the “hard” cases, leaving many homeless on the street.

Can We End Homelessness?

Ending homelessness means providing housing at a price homeless people can afford. But the homeless have very little money, and fairness suggests they should not be favored at the expense of similar poor people who have managed not to become homeless. The housing, then, would have to be very minimal, at a time when standards for housing quality are higher than ever. This conflict between income, equity, and standards is the central dilemma for homeless policymaking.

One way out of the dilemma is to enable all poor people to afford standard housing, either by raising their earnings (through wage subsidies, a rise in the earned income tax credit, public job creation, or an increase in the minimum wage) or by increasing public assistance. Each is extremely expensive. In the current economic and political climate, garnering support for spending on such a scale is hard to imagine.

A second way to make housing available for all poor people is to relax housing codes and zoning rules. That strategy would enable entrepreneurs or nonprofits to recreate the lower-quality housing that has been destroyed in the past 20 years. The budgetary cost would be negligible. But unless the standard became very low, most homeless people could not afford even this housing. San Diego relaxed some standards to build a single-room-occupancy hotel, but the average monthly rent for a room was \$270. Further, lowering housing standards risks a return to squalid housing, an option that may not be any more ethically desirable than the policy of subsidizing all poor people is economically and politically feasible. Moreover, neither of these approaches addresses the needs of many people who need mental health, drug dependency, and other services to end their homelessness.

But if the United States is not likely to end homelessness, it can take steps to mitigate the problem. What follows is a sketch of what might be done, with estimates of the cost to the federal government. As the costs of housing and services for the homeless are not well understood, these estimates are very rough approximations.

The Structured-Shelter Option

The challenge in designing local policy is to provide assistance efficiently without increasing the incidence or duration of homelessness. In short, policies must pay attention to homeless dynamics.

One policy that meets this test is a tiered structure

of either public or nonprofit intake and shelter-based services that serve as the gate to permanent housing. The “structured-shelter” option has four elements: assured temporary housing, a shelter length-of-stay criterion and a progress-in-treatment criterion, both for allocating permanent housing, and outreach combined with legal pressures to get people off the streets and into treatment programs or some kind of housing.

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Treatment progress would consist of meeting program goals: for an addict, remaining drug free; for a mentally ill person, taking medication regularly; for a drug-addicted head-of-family, completing a life skills class and attending regular drug treatment sessions. Requiring people to meet such tests reduces the chance that the availability of services would increase the number of people becoming or remaining homeless. Only those meeting the criteria are eligible for permanent housing.

The “easiest” cases are families and single adults without other problems. At entry into a shelter, all clients would be assessed to learn why they are homeless and what problems they have. They would also be given help in finding other housing. Those remaining after a month would move into transitional facilities, where they would have to participate in services (training in money management, parenting and housekeeping skills, job searching), meet goals, and abide by fa-

cility rules (no drinking or drug use, no overnight guests). Help in finding other housing and work would continue. Families that meet basic service goals but cannot find housing for, say, one year would be given priority for publicly provided permanent housing.

Transitional shelters can help homeless single adults find jobs and save money so that they can rent places of their own. For adults sheltered at least 60 days, states

to treat than drug abuse. To end homelessness for some who are drug dependent, a system of services and strict performance standards is essential.

After an initial 10 days to two weeks in detoxification, either in community-based “detox” centers or in the shelters themselves, clients would move to drug-free transitional residences to begin therapy. Some will be able to find their own housing and will require only short-term outpatient treatment; others will need long-term transitional housing and case management, possibly followed by “supported” housing, where they would be supported in dealing with their drug dependency.

After meeting the goals set by the transitional shelter, clients would receive help finding work and permanent housing. Those unable to locate housing and who had lived in the shelters one to two years could be eligible to move into supported SROs.

Because many drug users will refuse treatment and others can function with their dependencies, not all homeless drug abusers will be treated. Drug treatment and daily living services for 71,000 people for an average of 12 months would cost \$550 million.

The system for mentally ill people would be similar to that for other groups. Intensive outreach would bring people from the streets into small “safe havens” that would provide psychiatric assessment and care. Depending on their condition, people would move from the safe havens into permanent housing or into transitional shelters. These would monitor medication, train patients in daily living activities, and provide general medical services and psychiatric and psychosocial treatment. Stays could last from three months to a year.

Permanent housing would range from independent living to structured community residences with complete services to, when necessary, long-term asylum. No length-of-stay criterion would be imposed for access to permanent housing. Community mental health services—case management and acute care crisis intervention services—would be provided to those living independently.

Can community mental health services keep mentally ill people permanently housed? Since 1990 a New York City program has placed more than 636 people into new permanent housing with support services. A one-year follow-up of 284 clients found 78 percent still in residence, while 21 percent could not be located. Another New York City study randomly assigned patients who were discharged from a psychiatric institution into supported housing or a control group. One year after placement, 69 percent who went to supported housing and only 30 percent of the control group were permanently housed. Still, 20 percent of the supported housing group could not be located or were known to be homeless. Some residential instability is likely to remain.

To prevent the mentally ill from becoming homeless and to provide care for those who are, the charters of community mental health centers should require that their primary mission be to serve the severely and persistently mentally ill. Also, each state should be required to develop a comprehensive ser-

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and cities should enlist federal support to create a jobs program paying 90 percent of the minimum wage. The program could be run using a hiring hall where work would be assigned and pay received on a daily basis. Jobs would last no more than 12 months. Full-time, year-round earnings at this rate would support a monthly rent of about \$200 (30 percent of present earnings). Where basic housing is more costly, single adults with good job attendance would be eligible for housing vouchers or subsidized SRO housing.

The cost to the federal government of providing services to families and single adults, creating transitional housing facilities, providing housing vouchers for families, and putting together a jobs program would be approximately \$2 billion a year.

Serving the Drug-Addicted and Mentally Ill

Of all the problems complicating homelessness, none is likely to be more prevalent, persistent, and difficult

vice plan linking the centers to state mental hospitals.

A presidential commission should be appointed to review laws determining whether to institutionalize individuals when they suffer from illnesses that impair their judgment. And demonstration programs for transitional housing and services should be started in preparation for statewide expansion of these initiatives over the next decade.

The annual cost of transitional housing and services for the homeless mentally ill would be \$900 million. But if the government can redirect community mental health centers to serve the severely and persistently mentally ill, most of these costs would be offset.

Outreach and Legal Pressure

People living on streets, especially many who are mentally ill or chemically dependent, cannot be expected to act on their own to improve their situation. Successful outreach requires intensive, skilled, protracted effort. In one National Institute for Mental Health program, fewer than 20 percent of those contacted were actually connected to programs and services. Succeeding at outreach for drug abusers living on the street is even harder.

To encourage, or, in some instances, force people to take advantage of outreach, it will be necessary to enforce laws against sleeping in public places, loitering, and perhaps begging. The threat of jail may encourage addicts to remain in a therapeutic program or in transitional shelter or to get housing on their own. Such action, however, can and should be taken only if alternatives to jail actually exist.

This policy may seem retrograde for a society that has tried to move away from coercion and punishment and toward treating substance abuse and psychological problems as illnesses. And the legal ascendance of individual rights makes such a policy difficult to implement. Members of the psychiatric health community, however, have questioned whether the balance between these rights and the needs of mentally ill people has been lost. Moreover, the goal is not punishment, but the treatment required for the homeless to become housed.

Single-Room-Occupancy Hotels

Permanently housing many homeless single adults requires a limited number of SROs and vouchers. Although the length-of-stay and service requirements of a structured-shelter program will limit access to this housing, it is also important not to exceed minimal housing standards for the units. Higher-quality standards will boost demand and increase costs.

Nonprofits have recently developed supported SROs that provide on-site mental health and other services, depending on the needs of occupants. Nationwide, 1,700 units have been created so far. State and local governments could help encourage non-profit and for-profit development by relaxing local building codes and density standards while still requiring SROs to meet health and safety standards. And the federal government could make housing vouchers available for some homeless adults leaving transitional shelter programs.

To house the homeless adults coming out of these programs would require creating about 300,000 supported and nonsupported SRO units, using a mix of government spending. The government would have to subsidize the development of at least 75,000 units at a cost of about \$2.2 billion (a one-time outlay) and could provide vouchers for the rest at a cost of about \$1 billion a year.



Are We Ready to End Homelessness?

Too often the basic menu of human needs becomes a mere buzz: food, clothing, shelter. The needs are so essential that a wealthy nation simply assumes they will be met.

For 15 years now, for an increasing number of American citizens, shelter cannot be assumed. Indeed, in view of the precipitous declines in housing and income for millions of very poor people, how so many stay housed is more remarkable than why some have become homeless.

The structured-shelter option can end homelessness for some and assuage the problem for others. It does not stop people from becoming homeless. To do that, the nation must face up to the problems of housing that is too expensive and incomes that are too low. The nation must decide whether to pay the price for everyone to have decent housing or to define anew the decent housing that anyone can have. ■

B I D s,

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S A D s

PRIVATE GOVERNMENTS
IN URBAN AMERICA

As America's cities fall into ever worse repair, small new signs of vitality are beginning to appear. In center city Philadelphia the streets have never been cleaner, and community service representatives patrol the sidewalks with walkie-talkies connected to the police department, keeping an eye out for crime and offering assistance to shoppers and tourists. New York City's Grand Central Station is getting a facelift with new street lighting, signs, shrubbery, and street furniture. In downtown Cranford, New Jersey, sidewalks are being repaved, Victorian street lights installed, and parking spaces expanded.

How can the fiscally strapped city governments of Philadelphia, New York, and Cranford afford to undertake such ambitious projects? They can't. All these activities are the work of "private governments" made up of downtown property owners and their tenants, who cannot get from their municipal government the services they consider essential to remain in business. City government finances, already strained by a several-decade-long exodus of residents and jobs to the suburbs and an increasingly needy local population, were further diminished during the 1980s by a loss of federal aid. The economies of many cities, buoyed by the real estate boom of the 1980s, have been severely set back by the recent recession. In response, in city after city across the land, businesses themselves have begun to take increasing responsibility for activities and functions normally provided by municipal government.

Enthusiasm is widespread. Last April the *Economist* magazine went so far as to argue that these private governments "may be the best hope of getting parts of America's cash-strapped cities working again." But whether the many long-run benefits hoped for by downtown business leaders and municipal officials will be

realized is uncertain. And the private governments may have some harmful distributional and political implications. If their benefits do turn out to be strongly positive, the challenge to public policy is how to avoid or mitigate the potential negative consequences.

Known variously as business improvement districts (BIDs), downtown improvement districts (DIDs), special improvement districts (SIDs), and special assessment districts (SADs), these private governments are attempting to stem urban decline—in particular to maintain the value of their properties and their business—by improving local public services beyond what the city can provide.

Essentially, each district authorizes the city to levy additional taxes on its members, who are required to pay them, just as they must pay their property taxes. The BID then uses the revenues to provide the services it needs.

The BID phenomenon is so new that no one is even sure how many special districts exist, though estimates go as high as 900. Based on a recent survey, it appears that very few existed before 1980, and about half of all BIDs have sprung up in the past five years. The districts vary widely in size, with budgets ranging from millions of dollars down to less than \$10,000, and in the types of projects they undertake, from capital projects to maintenance to security to parking (see table 1).

Varied as the BIDs are, all share three critical characteristics. First, their expenditures are restricted to one section of a city. Second, the districts are organized and financed by property owners and merchants, who operate on the basis of state and local laws that permit them to tax themselves. And third, revenues are used to purchase supplemental services and capital improvements beyond those provided by the city.

Although BIDs are a relatively recent phenomenon, they are

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not *sui generis*. They may be thought of as part of a larger class of entities known as special districts. Traditionally, special districts have provided education, water supply systems, fire protection, parks, airports, and ports. Thousands of such districts appear in the U.S. Census of Governments. Like BIDs, although for different underlying reasons, special districts provide services that existing governments are unable or unwilling to supply. Special districts, however, are multi-jurisdictional: the service in question is provided more efficiently over an area *wider* than that of the existing governments. In stark contrast, BIDs involve a small area *within* a jurisdiction.

Can BIDs Do the Job?

Because BIDs are such a recent development, all that can be said about them with confidence now is that in the very short term, they cause taxes to rise and services to improve within the district. Whether they can stem downtown deterioration by retaining old businesses and by attracting new businesses and residents is less certain.

Whether BIDs will improve public services in the downtown in the long run is also impossible to say yet, although the answer is likely to depend on local circumstances and to vary from place to place. Fiscally strapped city governments may encourage the formation of BIDs to reduce claims on their resources. If city officials can persuade downtown businesses to meet some of their own needs through tax surcharges, they will surely be tempted to press them to meet more. In many states, the enabling legislation for BIDs requires the city to maintain initial service levels, but there is usually an escape clause related to fiscal emergency. Conversely, should the fiscal picture brighten and overall services improve, the downtown may be less likely to share in the expansion from general revenues.

Downtown business interests, however, are not notably powerless, and in fact their political influence may be enhanced by the BID and by its organization and representation of downtown in-



terests. BIDs could thus divert resources from elsewhere.

Potential Benefits

The simplest measure of BID success would be a rise in property values, reflecting real benefits to the business owners, shoppers, workers, and residents in the immediate BID area.

From an efficiency point of view, a BID is a very attractive fiscal structure to realize these benefits. In a BID, those who pay the extra taxes determine what services will be provided and are the principal beneficiaries. The BIDs can take advantage of relatively homogeneous demands

for public services within the downtown, demands that are likely to differ substantially from those of surrounding neighborhoods.

A major argument against small districts in public finance theory is that because they do not fully capture the benefits generated by increased services, some of which spill over to adjacent neighborhoods, they will spend too little. But that argument is not relevant to BIDs, which come into being largely because the larger entity, the city, is spending too little.

BIDs also solve the free rider problem that makes voluntary efforts so difficult to sustain. Because it would be impossible to exclude individual property owners from the benefits of cleaner streets and improved security achieved by a voluntary collective effort, the incentive is strong for some businesses to refuse to pay the cost.

Finally, economies of scale—again an important consideration in public finance theory—are not important in the services provided by BIDs. Small capital projects, maintenance, and promotional activities are simply not subject to large economies of scale. Even BID security activities—generally having more people walk the streets ready to contact police in case of trouble—do not involve the broader police functions subject to economies of scale, such as pathology laboratories or elaborate communications systems. And because many BID services are provided through contracts with private firms, rather than through their own labor force and capital equipment, any benefits of economies of scale can be realized through the contractors.



other areas. For example, the declining crime rates claimed by many BID's may simply move crime across the district border. In addition, BID's may draw the most vigorous businesses, capable of paying the additional assessments, to the downtown

from other parts of the city where services are inferior, causing a further decline in already troubled neighborhoods.

Still another cost to others will arise if the BID increases the opposition of downtown businesses to general tax increases. The BID assessments, with their clear local benefits, will be much more attractive than conventional tax payments.

Finally, successful BID's may encourage the extension of "private government" to residential neighborhoods. In fact, in 1989 the U.S. Advisory Commission on Intergovernmental Relations noted that residential community associations (RCAs) were already widespread in suburban developments, providing quasi-public services that resulted in "a higher quality of life" for members. The cost, however, according to Robert Nelson, an Interior Department economist, may be an erosion in "the broader sense of metropolitan and national community" and a possible increase in the "barriers and social divisions among the residents of a metropolitan area."

No Track Record

At this point little can be said about whether either the potential benefits or costs of BID's are actually materializing. First, BID's are too new to have established a track record. And second, the 1980s, the period during which nearly all BID's were formed, were unusual years, first of severe recession, then of vigorous expansion. It would be foolish to attribute changes in property values, either up or down, to BID's during a period of such turbulence.

Most of the desirable efficiency properties of BID's are in fact realized in practice. They are largely self-financing, with less than 10 percent of BID revenues coming from general government revenues and nearly 70 percent from the BID assessment. BID expenditures are all made within the district, with the most immediate benefits accruing to the district: cleaner streets, increased security, better maintenance.

Most BID's are relatively small and many exclude residential property owners. Thus, they can realize the benefit that comes from taxpayers having relatively similar views about the types of public services needed. Potential conflicts between retailers and

Potential Costs

The costs of BID's are most directly reflected in the increased business assessments, which generally add about 2-5 percent to existing property taxes. Businesses are in the habit of telling city hall that conventional tax increases reduce both employment and property values and force businesses to move to the suburbs. The expectation is that BID assessments, by contrast, will not cause a business exodus. Whether that happens remains to be seen.

As property owners try to pass the increased assessment on to their tenants, those tenants may have to accept lower profits, raise prices, or reduce costs. Lower profits may cause firms to leave the city, further increasing vacancy rates and ultimately lowering property values. Price increases may lead shoppers and clients to take their business elsewhere, with the same ultimate effect. And cost reduction may take the form of laying off workers or slowing wage growth. These effects of increased taxation may be offset by the benefits conferred, but property owners may, nonetheless, be concerned about them.

Property owners within the BID may also worry that the city will be even less attentive to their needs once the BID is operating and that the services provided by the BID will not supplement existing services but permit them to be diverted to other parts of the city.

By contrast, outside the BID, property owners and residents worry that city resources will be diverted to the BID in recognition of its self-help efforts and political influence.

A potentially high cost of BID's may be a perception of inequity that exacerbates existing social divisions. Certainly BID's increase differences in the quantity and quality of "public" services in different parts of the city. Even if services elsewhere are not reduced, the improved services within the BID may have negative consequences for others. First, it may appear that "downtown" is obtaining an unfairly increased share of resources. If the BID response to such a criticism is that it is paying for its new services, community groups are likely to argue that the level of public security or cleanliness in a neighborhood should not be a matter of ability to pay.

Improved services in the BID may also create problems for

Table 1. How Do BIDs Spend Their Money?

ACTIVITY	PERCENT OF TOTAL	NUMBER OF BIDS	NUMBER OF BIDS
	SPENDING	WITH SOME SPENDING	WITH NO SPENDING
Capital projects	22.3%	68	27
Maintenance	17.7	48	47
Security	9.9	15	80
Business development	2.7	41	54
Promotions	13.6	78	17
Planning and design	3.1	37	58
Parking and transportation	2.2	23	72
Social needs	0.1	2	93
Administration	18.0	86	9
Other	7.9	44	51

other businesses exist, as do those between small and large firms, but the major differences, between residents and businesses, are eliminated.

It is too early to tell whether higher BID assessments force businesses to leave the area. Many

BIDs claim they have increased occupancy rates in downtown buildings. At this point that conclusion can be neither confirmed nor denied. Systematic analysis, taking into account changes in overall economic activity as well as what is happening nearby, is necessary.

One of the most positive signs that BIDs may have generally beneficial effects and not pose severe equity challenges is that in some cities they can be found in neighborhoods with widely varying resource bases. The New York Grand Central District, with its major corporate members and high real estate values, cannot be considered an ordinary BID. More typical of New York City BIDs are those at Brighton Beach, a 13-block commercial area in southwest Brooklyn populated by recently arrived Russian and Asian immigrants (1991 BID assessment: \$150,000); at Graham Avenue, a Brooklyn Puerto Rican neighborhood of retail stores with residential apartments above them (1991 assessment: \$108,925); and at the 165th St. Mall in a black neighborhood in Queens that features small to medium-size discount stores (1991 assessment: \$156,509). Despite this diversity, however, the potential for negative spillovers, for perceptions of inequity, and for social divisiveness are things to be anticipated and worth trying to avoid.

Are BIDs Good? In What Ways? For Whom?

The ultimate effects of BIDs for good or for ill are yet to be seen. There are some strong reasons to support them: the goal of revitalizing the downtown is important; the instrument, the BID, is appealing from an efficiency point of view, although the importance of enhanced public services relative to other factors causing urban deterioration is unknown.

In the short run, BIDs are likely to increase the prosperity of downtown businesses and to improve the quality of life for some in America's cities. What will be the longer-term consequences for the cities as a whole? Social and economic prosperity in some neighborhoods at the expense of others could have substantial negative consequences for the rest of the city. Even if BIDs make everyone better off by improving the urban economy and by

Source: Mail survey of BIDs carried out in cooperation with the International Downtown Association. Data are for fiscal year 1992.

maintaining jobs, the tax base, services, and retail opportunities in the city, perceptions of social inequity could be extremely damaging. If BIDs and, by extension, RCAs do offer significant benefits, it is crucial for policymakers to extend them to poorer neighborhoods.

As the New York City examples show, BIDs can function in a variety of commercial areas. The more BIDs there are, in the widest possible range of neighborhoods, rich and poor alike, the less likely one neighborhood is to gain at the expense of others. And the more BID services, tailored to local needs and controlled by local boards, are expanded, the less likely one neighborhood is to envy others. Finally, the stronger the entire urban economy, the more likely the downtown area is to be rejuvenated.

As the administration, Congress, presidential candidates, and state and local officials grope for a desperately needed urban policy in the wake of the Los Angeles riots, financial aid to develop BIDs in business districts in poorer neighborhoods may be a good bet. This is not an argument for massive support—self-help is the watchword when it comes to BIDs. But the seed money and labor that wealthier downtown businesses have contributed to initiate the process and rally support for BIDs are harder to come by in poorer neighborhoods. And their more marginal businesses may require initial state or federal subsidy to help pay for additional assessments. Such subsidies can be justified where social benefits exceed private benefits. But these redistributive subsidies cannot come from the local community without increasing the already strong forces pushing and pulling firms from cities to their suburbs. That such subsidies may displace city expenditures and therefore have no net benefit is always possible. But it may be that the existence of BIDs provides the appropriate, self-interested vehicle for monitoring such diversions.

BIDs are not a cure for all urban ills, and may not even ultimately be a cure for any. But support for the effort is warranted by the nation's increasingly serious urban problems, by the congruence of BIDs with underlying public finance principles, and by the growing willingness of the business community to look to its own resources for the solution of "public" problems. ■

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FORECASTING THE 1992 PRESIDENTIAL ELECTION

A User's Guide to the Models



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The 1992 presidential election season has been wildly unpredictable. In March 1991 President George Bush basked in the glory of Desert Storm. His 90 percent job approval rating made him seem a sure bet for reelection; it certainly discouraged potential candidates from seeking the Democratic presidential nomination. Yet 16 months later Bush had become an object of pity and scorn, garnering approval of less than a third of the public and subject to a constant barrage of criticism in the media and second-guessing by Republican strategists.

Political fortunes on the Democratic side were no less surprising. The early favorite in a relatively weak field, Governor Bill Clinton of Arkansas took devastating hits from charges of marital infidelity and draft dodging that most observers thought fatal. Yet he managed to hold on and win the Democratic nomination in spite of polls showing him to be an extraordinarily weak general election candidate. During the summer he revived his November prospects by choosing a popular running mate, running an immensely successful party convention, and making a rousing, media-friendly, post-convention bus tour. In a few short weeks, Clinton went from decided underdog to frontrunner, with a 20–30 point lead over the incumbent president.

Meanwhile, Texas billionaire H. Ross Perot tantalized the country for several months with the prospect of a generously self-financed independent candidacy. Riding the crest of public disgust with politics as usual and antipathy toward Bush and Clinton, Perot catapulted to the lead in 3-way trial heats, prompting endless speculation about the election being thrown into the House of Representatives. Then he vanished as abruptly as he had appeared, leaving a conventional two-party matchup in a decidedly unconventional year.

Given this stream of unforeseen events and sudden reversals, most observers are understandably wary of forecasting the November results based on the apparent strength of the candidates months (or even weeks) in advance of the elections. There is, however, a natural desire to look beneath the surface of the 1992 election for signs of order, for patterns familiar from past elections. Increasingly, reporters and pundits are turning to forecasting models developed by economists and political scientists to discover the underlying structure of presidential elections.

The Forecasting Models

Michael Lewis-Beck of the University of Iowa and Tom Rice of the University of Vermont have led the way in developing election forecasting models. The first equation in table 1 is a slightly modified version of their initial forecasting effort, which drew on Edward Tufte's analysis of the effect of economic conditions on politics and on Richard Brody and Lee Sigelman's examination of the relationship between presidential job approval ratings and election results.

The Lewis-Beck and Rice model was originally constructed to forecast the election nearly six months

in advance, using the May measure of presidential job approval and first quarter real GNP growth per capita. To improve the equation's accuracy, the lead time between the forecast and the election has been shortened by two months, allowing a forecast in July rather than May. Based on experience over the 11 elections from 1948 to 1988, for every additional percentage point of public approval in July, the incumbent presidential party can expect to receive about 1 percent more of the vote in November. In terms of economic growth, 1 percentage point of growth in the first half of the year translates into 1.3 points of the actual vote. It should surprise no one that, all things being equal, voters reward incumbents for good economic times and punish them for bad. While presidential approval and economic conditions are themselves positively correlated, each exerts an independent influence on the vote, with presidential approval appearing to be more important.

On both the economic growth and presidential job approval fronts, the Bush presidency heads into the fall campaign with a deficit. Bush's July job approval rating was only 31 percent, and economic growth for the first two quarters of 1992 was barely above 1 percent (2.15 percent on an annualized basis). Average incumbent July job approval in the past 11 campaigns has been 48 percent, and the average approval rating of incumbents whose party later won has been 57 percent. In the 11 postwar presidential elections, only one incumbent party with July approval below 50 percent retained control of the White House. (The one exception was Harry Truman's miraculous come-from-behind victory over Tom Dewey in 1948 after suffering a July approval rating just short of 40 percent.)

On the economic count, incumbents have typically entered the fall campaign with first half growth rates around 2 percent (4 percent annualized), with successful incumbents averaging better than 2.6 percent. In Truman's victory year, the first half growth rate was 2.42 percent, more than double that facing President Bush. The only incumbent to win reelection with first half growth under 1.5 percent was Dwight Eisenhower, whose personal popularity, apparent in a 69 percent July approval score, more than offset the economic problems that beset the final year of his first term. Bush enjoys neither personal popularity nor robust economic growth.

While Bush's approval score and the sluggish economic growth rate might appear to presage an easy Clinton victory, the equation suggests that voters give the benefit of the doubt to the incumbent. Although the incumbent presidential party has been turned out of office nearly half of the time since 1948 (5 of the 11 elections) and the incumbents personally have not fared much better (winning 4 of 6 elections), the average vote for the incumbent presidential party was 53 percent—suggesting a slight advantage. Even with approval scores of 40 percent and an economic growth rate of 1.5 percent, the incumbent could expect a razor thin victory. Unfortunately for Republicans, current numbers fall short. The July popularity and economy forecast portends good news for

Table 1 Four Forecasting Equations of the Presidential Vote

MODEL	LEWIS-BECK & RICE I		LEWIS-BECK & RICE II		FAIR
	ABRAMOWITZ				
DEPENDENT VARIABLE	INCUMBENT VOTE	INCUMBENT VOTE	INCUMBENT VOTE	DEMOCRATIC VOTE	
July presidential approval rating	0.276 (31)	0.203 (31)	0.184 (31)	—	
Economic growth	1.315 (1.075)	1.556 (1.075)	1.574 (1.075)	1.040 (.4 × -1)	
Absolute rate of inflation	—	—	—	—	-0.314 (3 × -1)
Incumbent party	—	—	—	—	0.534 (-1)
Incumbent running for re-election	—	—	—	—	4.233 (-1)
Party seeking third term or more	—	-4.395 (1)	—	—	—
Seat change in midterm election	—	—	0.103 (-8)	—	—
Incumbent received at least 60 percent of primary vote	—	—	2.370 (1)	—	—
Time trend counter	—	—	—	—	0.362 (23)
CONSTANT	37.301	42.739	42.831	40.211	
Number of cases	11	11	11	19	
R-square	0.835	0.947	0.934	0.890	
Adjusted R-square	0.794	0.924	0.891	0.847	
Standard error	2.818	1.715	2.054	2.960	
1992 Bush vote forecast:	47.3%	46.3%	51.8%	55.7%	
Forecast winner	Clinton	Clinton	Bush	Bush	
Electoral votes	—	—	57%	—	

Note: The 1992 values (or estimated values) of the variables are in parentheses below the pertinent coefficient.

Sources: Michael S. Lewis-Beck and Tom W. Rice, "Forecasting Presidential Elections: A Comparison of Naive Models," *Political Behavior* (1984); Alan I. Abramowitz, "An Improved Model for Predicting Presidential Outcomes," PS; Lewis-Beck and Rice, *Forecasting Elections*, (1992); Ray C. Fair, "The Effect of Economic Events on Votes for President: 1984 Update," *Political Behavior* (1988), and "The Effects of Economic Events on Votes for the President: 1988 Update," mimeo. Because of a change in Commerce Department reporting of economic indicators, we use the percentage change in GDP rather than GNP in this analysis. The rate of change of the two measures, as one would expect, closely tracks over time. With the exception of Fair's equation, the economic indicator is the real change (non-annualized) in the GNP in the first half of the election year. Fair uses an estimate of real GNP growth per capita in the second and third quarter (annualized) of the election year. Fair indicates that the per capita annualized economic growth figure can be roughly estimated by subtracting 1 percentage point from the raw annualized figure. Since the July measure of second quarter annualized growth was 1.4 percent, the growth figure used is .4 percent. In Fair's equation the economic variables interact with incumbency in that growth and low inflation favor the incumbent party. Fair's time-counter variable ranges from 8 in 1916 to 23 for 1976 and after. The incumbent party and incumbent running for reelection variables are coded +1 for Democrats and -1 for Republicans. The third term or more variable and the variable indicating whether the incumbent received 60 percent or more of the primary vote in his party are dummy (0,1) variables.

Table 2. Early September Trial-Heat and Economic Growth Model

1992 CONTINGENT PREDICTIONS OF THE VOTE FOR BUSH

PERCENTAGE FAVORING BUSH IN EARLY SEPTEMBER TRIAL-HEAT POLLS	PREDICTED PERCENTAGE OF THE TWO-PARTY PRESIDENTIAL VOTE
40%	45.8%
41	46.3
42	46.9
43	47.4
44	47.9
45	48.5
46	49.0
47	49.5
48	50.1
49	50.6
50	51.1
51	51.6
52	52.2
53	52.7
54	53.2
55	53.8
56	54.3
57	54.8
58	55.4
59	55.9
60	56.4
61	57.0
62	57.5
63	58.0
64	58.5
65	59.1

THE FORECAST EQUATION IS:

$$\text{INC VOTE} = 23.82 + 0.53 \text{ TRIAL HEAT} + 2.19 \text{ GNP GROWTH (2ND QUARTER)}$$

N=11, R2=0.95, ADJ.R2=0.94 AND SE=1.52,

where the incumbent vote (Inc vote) is the percentage of the two-party vote for the incumbent party; Trial heat is the percentage supporting the incumbent party candidate (plus half of the undecideds and those supporting minor candidates) in early September; and the GNP growth is the real growth (non-annualized) in the second quarter as reported in the July issue of *The Survey of Current Business*. See James E. Campbell and Kenneth A. Wink, "Trial-Heat Forecasts of the Presidential Vote," *American Politics Quarterly* (July 1990), pp.251-69. The second quarter GNP growth was 0.34% (non-annualized).

Democrats: a narrow Clinton victory—52.7 percent to 47.3 percent.

Alan Abramowitz of Emory University took the incumbent advantage of the presidential party into account in an adaptation of the popularity-economy forecasting model. Noting that incumbent parties can wear out their welcome, Abramowitz added a simple variable indicating whether the incumbent party was seeking reelection to more than a second consecutive term. The longer one party occupies the White House, the more receptive the public is to the argument that "it's time for a change." A president sitting for his party's third consecutive term is held liable not only for the complaints of his four years in office but for grievances with the previous administration.

As table 1 shows, the inclusion of the "third term plus" variable significantly improves the fit of the popularity-economy equation (as reflected in the improved explained variance, or R-square, and the smaller standard error). What does it say for 1992? More bad news for George Bush. In addition to carrying low approval scores and a weak economy into the fall campaign, the president gains little solace from his status as an incumbent. The net result, according to the Abramowitz model: a more comfortable Clinton victory—53.7 percent to 46.3 percent.

Lewis-Beck and Rice have expanded their own economy-popularity model in a different way in their book *Forecasting Elections*. They have added two new predictor variables: the number of seats lost by the president's party in the past midterm election and whether the incumbent presidential party nominee received at least 60 percent of his party's vote in the primary elections leading up to the nomination. The midterm seat loss variable is intended to reflect the electoral strength of the party. Parties that lose relatively few seats in the midterm are judged to enter the presidential campaign stronger than those who sustain severe losses. And while there is debate over whether divisive primaries weaken candidates or are a signal that an incumbent is already vulnerable, in either case we should expect a smaller vote for an incumbent who had to fight for his own renomination and a larger vote for an incumbent who won renomination handily.

Lewis-Beck and Rice originally estimated their revised equation to forecast the incumbent party's electoral, rather than popular, vote; however, we have reestimated it on the national two-party popular vote for the incumbent party. The fit of this equation is, like the Abramowitz equation, an improvement over the simple popularity-economy equation. What does it forecast for 1992? Owing to the relatively minor midterm losses of the Republicans in 1990 and Bush's 60-plus percent showing in the Republican primary vote, it predicts a higher vote for Bush than expected from his approval ratings and economic growth rates alone. With two favorable and two unfavorable indicators for the president, the model indicates a narrow Bush victory: 51.8 percent to 48.2 percent.

The fourth model, developed by Yale University economist Ray Fair, has garnered a good deal of attention in the media. Unlike the other three equa-

tions, Fair's predicts the Democratic party's presidential vote rather than the incumbent party's vote. The equation includes four substantive variables tapping two different considerations of the voters: the economy and incumbency. The economic variables are the absolute inflation rate in the two years before the election and real GNP growth per capita in the second and third quarters (annualized) of the election year. Both variables are included as interactions with incumbency, so that the presidential party is rewarded for good economic times and punished for troubled economic times. The incumbency variables indicate which party occupies the White House and whether the incumbent president is running for reelection. Voters are predisposed to keep the incumbent party, particularly the incumbent president, in office. In addition to these four substantive predictor variables, Fair includes a variable designed to take into account a supposed Democratic trend from the first election in his series (1916) up to 1976.

Although Fair's equation estimates the Democratic rather than the incumbent vote and is estimated over more elections, making comparisons to the other equations difficult, it appears to fit election results since 1948 about as well as either the Abramowitz or the amended Lewis-Beck and Rice equations. For the Fair equation, however, the inflation and growth rates required for a forecast are not available until after the election. To forecast from the Fair equation, it is necessary to produce estimates of inflation and growth rates. Based on rough estimates of second and third quarter GNP growth per capita (.4 percent annualized) and an inflation rate of about 3 percent, we can derive a forecast from the Fair equation. Of the five elements that go into Fair's forecast, two are positive for the Democrats: the general trend variable that plateaued in 1976 and the weak economic growth. The Republicans benefit from the low inflation rate and the two incumbency variables (their party occupies the White House, and their incumbent is seeking reelection). Who is the net beneficiary? Fair's equation predicts the unexpected: a solid Bush victory, 55.7 percent to 44.3 percent.

The four models split down the middle: two predict a second term for President Bush and two predict victory for Governor Clinton. But they do agree on one thing: there will be no popular vote Clinton landslide. All the models forecast that Clinton's huge midsummer lead in the polls will shrink or evaporate by election day. But why are models that conform so well to past elections now so out of step with one another?

What's Wrong with the Models?

The weakness in the first equation, the simple popularity-economy model, is apparent in the relatively weak overall fit of the equation to past election results. It was this that led both Abramowitz and Lewis-Beck and Rice to include more variables in the equation.

The variables added by Abramowitz and by Lewis-Beck and Rice in both cases significantly improve the historical fit of the model, but raise additional questions of their own. Abramowitz's "third term plus"

variable, for example, can be interpreted in two different ways. On the one hand, it may reflect a building public mood for change. Eight years of one party in the White House may be enough for some voters. On the other hand, a party seeking a third term or more usually has a candidate who has not been elected to the presidency. The negative effect of the "third term plus" variable may simply reflect the difference between the incumbent party running an elected incumbent or putting forth a new candidate. Indeed, if we replace the "third term plus" variable with a variable for an incumbent seeking reelection, the equation fits past election results every bit as well as the Abramowitz equation. In most cases, the two interpretations of the "third term plus" variable would not make any difference. They would lead to the same prediction in 10 of the 11 elections from 1948 to 1988 (the exception being 1964). For 1992, however, the predictions of the two interpretations diverge. From the first perspective, George Bush should be penalized for running for a fourth consecutive Republican term and the Abramowitz forecast should hold. From the second perspective, Bush should benefit from being an incumbent seeking reelection and the Abramowitz forecast should be wrong. An equation based on the second perspective predicts a razor-thin Bush victory (50.1 percent to 49.9 percent). Given that the two interpretations are essentially indistinguishable from past elections and yield very different forecasts for the current election, we might well be wary of the Abramowitz forecast.

The party strength and party divisiveness variables added by Lewis-Beck and Rice are also problematic. First, the number of seats a party loses in the midterm depends on many things other than its strength. The previous presidential vote, presidential popularity at midterm, and the number of seats above the party's usual number (its "exposure") affect midterm seat losses. In addition, historically presidents have lost more seats in their second midterm (perhaps because they had been reelected by larger than average margins and had more coattails to lose), so this variable may be tapping into the problems of a party seeking a third consecutive term. Second, while including a primary divisiveness variable seems quite reasonable in theory, in practice it may be problematic this year. For 1992 the variable indicates that the Republican party was not divided in its nomination of Bush. While it was certainly not as divided as it was in 1976 (over Gerald Ford) or as the Democrats were in 1980 (over Jimmy Carter), neither was it notably united and enthusiastic about its nominee. Although Pat Buchanan did not receive more than 40 percent of the total primary vote, he was, after all, a journalist who had never held political office. That he could do as well as he did indicates some degree of internal party dissatisfaction with the incumbent. The early popularity of the Perot near-candidacy may also be a sign of Republican disaffection from their candidate. In short, in forming the forecast, there is reason to be skeptical about the full 2.4 percentage points added to the predicted Bush vote because of his party's nominal unity.

Of the four models, only Fair's predicts a solid victory for the incumbent. And Fair's model, too, raises questions. First, political scientists might look upon economist Fair's Democratic trend variable with a good deal of wonderment. Given the realignment of the 1930s, the post-1964 racial polarization of the electorate, and the general Republican gains in the 1980s, a consistent Democratic trend from 1916 to 1976 (stabilizing thereafter) is simply hard to believe. Yet, without this trend variable, the forecast would be for an even larger Bush victory! Second, if Abramowitz is even partially right about the incumbent party's longevity being a liability after its second term, Fair's incumbency variables may exaggerate the benefits of incumbency this year. Removing the incumbency advantage reduces Bush's forecasted vote by 4.8 percentage points. Third, Fair does not take into account the public's appraisal of the incumbent. While it is hard to argue with success, several models have been as successful as Fair's, and each has included public evaluations of the incumbent. In this election those evaluations appear decidedly negative for the incumbent. Finally, the absence of any measure of the public's assessment of the president underscores the fragility in 1992 of Fair's indicators of the state of the economy. Most objective measures of the economy's performance between 1989 and 1992 (slow growth, meager income gains, few new jobs) coincide with the public's unmistakable pessimism about immediate and long-term economic prospects. In short, as with the other equations, there is reason for skepticism about Fair's forecast of a clear-cut Bush victory.

What about Bill Clinton?

One other weakness may affect all four equations alike. Where is Bill Clinton? All four models focus exclusively on the incumbent party and candidate. The challenger is nowhere to be found. Would the Democrats have fared just as well if they had nominated Paul Tsongas, or Jerry Brown, or Mario Cuomo? While some evaluations of the challenger probably get smuggled into the overall job approval ratings of the president (who might look better to the public if his likely opponent is widely thought to be personally flawed or ideologically extreme), the challenger is not explicitly included in any of the models.

A forecasting equation suggested in some early work by Lewis-Beck and Rice, and then developed by Campbell and Ken Wink, addresses this problem. The equation produces forecasts based on Gallup trial-heat poll results and economic growth in the second quarter of the election year. A common trial-heat question might be worded: "If the presidential election were being held today, would you vote for the Republican candidate George Bush or the Democratic candidate Bill Clinton?" Essentially, the equation substitutes trial-heat poll results for presidential approval ratings in the popularity-economy equation. Not surprisingly, trial-heat results from September produced more accurate forecasts than earlier trial-heat results, which were confounded by the conven-

tions or caught many voters before they had settled on a candidate. More surprisingly, the September trial-heat-based forecasts were as accurate as those in October or even November.

At this writing, the September trial-heat polls are not yet available. However, table 2 indicates the predicted vote associated with different values of the September trial heat. (When using the trial-heat results, one must evenly divide the undecided respondents and those indicating a preference for a minor candidate and add that percentage to the percentages of the Bush and Clinton supporters.)

The conditional trial-heat forecasts indicate that Bush must enter the general election campaign in September with trial-heat polls of 48 percent or better to win a majority of the popular vote.

Forecasting the 1992 Vote in the States

In 1983, Steven Rosenstone, in *Forecasting Presidential Elections*, constructed an equation of a different nature. Recognizing that presidents are elected by electoral votes awarded to the popular vote winners in individual states, Rosenstone's model predicts the presidential vote in each state. The equation is very accurate but also quite complex and entails some indicators that are not available during the campaign. Building on Rosenstone's equation and the trial-heat national vote equation, Campbell has developed a revised state vote equation that is as accurate as Rosenstone's and can generate its forecast with fewer variables. The equation includes several national level variables (trial-heat polls, national economic change, and incumbency considerations), several state variables (home state advantages for the candidates, state votes in previous elections, and indicators of state partisanship and ideology), and several regional variables (a southern regional variable for southern candidates and five dummy variables to take regional realignments into account). The average absolute error of these forecasts is a bit more than 3 percentage points in each state.

As with the national trial-heat equation, the 1992 forecast from the state equation awaits the early September trial-heat results. Again, as in the national vote case, we have generated a contingency table. Table 3 presents predicted Democratic votes for each state, assuming that Bill Clinton's early September trial-heat polls show him leading George Bush by a 10-point margin, 55 to 45. The states are ordered from the one predicted to vote most Republican (Utah) to the one predicted to vote most Democratic (Arkansas). The left-hand margin identifies the level of September trial-heat support for Clinton necessary for the equation to predict that the state will go for Clinton. For example, if Clinton is ahead of Bush by 55 to 45 in early September (after undecideds and others are divided equally), the equation predicts that Clinton will win Texas and the 25 states below it in the table (plus the District of Columbia) for a total of 371 electoral votes. It predicts that Bush would win Maine and the 23 states above it in the table for a total of 167 electoral votes. Based on the 1988 turnout numbers in the states, the result would give Clinton a very narrow

popular vote margin but a more substantial electoral college victory (owing to a predicted Democratic victory in California).

If in early September the candidates are even in the trial-heat polls, the forecast is quite different. The cut point on the scale drops down to North Carolina. Republicans would win the 36 states from Utah down to Washington, with 388 electoral votes. For interpolation purposes, every trial-heat percentage point shifts the predicted vote almost four-tenths of a percentage point.

Two aspects of the state level forecast deserve particular attention. First, from 1948 to 1988 southern Democratic candidates enjoyed a home region effect. By the equation's estimates, having a southerner on the ticket added about 8 percentage points to the expected Democratic presidential vote in each of the southern states. The question is whether this "friends and neighbors" advantage exists for Clinton and Gore in 1992. The deep inroads made by Republicans in the South in recent elections may have neutralized the historical advantage of southern Democratic candidates. Second, the state to watch is California. As often noted, California has more electoral votes than any other state, 20 percent of the electoral votes necessary for a majority. Table 3 indicates that California is especially important because it is pivotal. Whichever candidate carries California is expected to win a majority of electoral votes.

Who's Going to Win?

Election forecasting under the best of circumstances is difficult and imperfect. As a relatively new area of research with models based on very few elections, involving questionable assumptions and rough indicators of only a partial set of factors that may affect specific election outcomes, it is still unclear which model or models, if any, are to be believed. While the wide range of forecasts from the current group of models, all of which have strong credentials going into 1992, is sobering for election forecasters, this year's election promises to do a good bit of sorting—among models as among candidates.

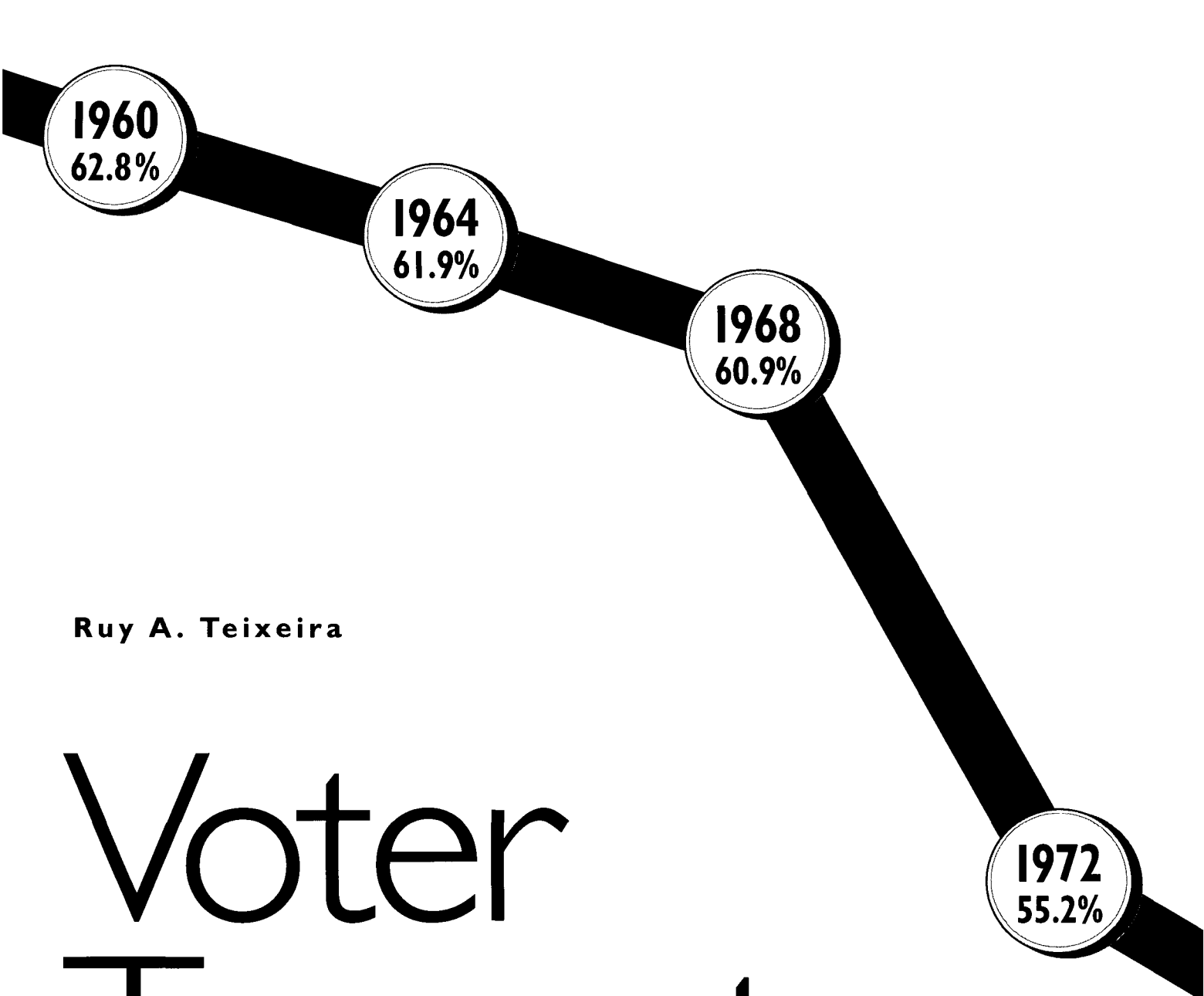
Whatever their limits, forecasting models are useful in making explicit the underlying structure of elections, reminding us that each election is not entirely unique, and constructing a baseline against which to assess the impact of presidential campaigns. Although the models are divided in their predictions, conditions look favorable for the Democrats. Two unimpeachable forecast indicators (the July approval ratings and economic growth rates) paint a bleak picture for Bush. The key to the forecast, however, is the relative standing of the two candidates in the September trial-heat polls—polls that, as of this writing, are not yet in. As we write in August, Clinton has a wide lead. And though the polls at this point can still be volatile, though this has already been quite an unusual election year, and though the campaigns may not be conducted with the near-equal level of effectiveness assumed by the models, unless Bush is able to pull within 10 percentage points by the first week of September, a Clinton victory seems a good bet. ■

Table 3. State 1992 Presidential Vote Forecast

NECESSARY SEPTEMBER TRIAL-HEAT PERCENT FOR CLINTON TO CARRY THE STATE	STATE	ASSUMES CLINTON TRIAL HEAT IN SEPTEMBER = 55%		
		PREDICTED DEMOCRATIC VOTE	ELECTORAL VOTES	
			CLINTON	BUSH
85%	Utah	37.8	0	5
	Idaho	38.6	0	4
	Nebraska	38.7	0	5
	Wyoming	40.7	0	3
80	Arizona	42.3	0	8
	Nevada	42.5	0	4
	Kansas	42.8	0	6
	New Hampshire	42.8	0	4
75	Alaska	43.6	0	3
	Oklahoma	43.6	0	8
	Indiana	43.8	0	12
	North Dakota	44.2	0	3
70	Colorado	45.7	0	8
	South Dakota	45.9	0	3
	Delaware	46.5	0	3
	Kentucky	47.1	0	8
65	Ohio	47.2	0	21
	New Mexico	48.0	0	5
	Michigan	48.3	0	18
	New Jersey	48.7	0	15
60	Montana	49.1	0	3
	Missouri	49.1	0	11
	Vermont	49.4	0	3
	Maine	49.5	0	4
55	Texas	50.0+	32	0
	Illinois	50.1	22	0
	Connecticut	50.3	8	0
	South Carolina	50.9	8	0
50	California	50.9	54	0
	Pennsylvania	51.0	23	0
	Virginia	51.2	13	0
	Florida	51.3	25	0
	Mississippi	51.4	7	0
	Oregon	51.7	7	0
	Wisconsin	51.8	11	0
	Washington	51.8	11	0
	North Carolina	52.1	14	0
	Minnesota	52.2	10	0
	New York	52.7	33	0
	Iowa	52.7	7	0
	Alabama	52.7	9	0
	West Virginia	53.0	5	0
	Maryland	53.1	10	0
	Georgia	53.2	13	0
45	Massachusetts	54.2	12	0
	Louisiana	54.8	9	0
	Hawaii	55.2	4	0
	Tennessee	55.9	11	0
40	Rhode Island	58.0	4	0
	Arkansas	59.6	6	0
TOTAL		50.3	371	167
States carried			26 (+DC)	24

Note: The forecasts assume that the early September trial-heat division is: 55% Clinton vs. 45% Bush. Undecided and "others" are divided evenly between Bush and Clinton. For every 1 percent that Clinton is above 55% in the early September trial-heat polls, add 0.4% to the predicted vote in each state. For every 1 percent that he is below 55%, subtract 0.4% from the predicted vote in each state. The District of Columbia is included in the totals by including its 1988 presidential vote totals. Its three electoral votes are included in Clinton's column.

Source: James E. Campbell, "Forecasting the Presidential Vote in the States," *American Journal of Political Science* (May 1992), pp. 386–407. The model used for the above predictions also includes an incumbent party variable and standardized state personal income growth from first quarter of the previous year to this year's first quarter rather than from fourth to first quarter.



Year	Turnout (%)
1960	62.8%
1964	61.9%
1968	60.9%
1972	55.2%

1960
62.8%

1964
61.9%

1968
60.9%

1972
55.2%

Ruy A. Teixeira

Voter Turnout in America

T E N M Y T H S

After a small improvement in 1984, voter turnout in American presidential elections has resumed its steady decline. With the 3 percentage point reduction in the 1988 election, voter turnout has now dropped almost 13 points since 1960. That puts voter turnout at barely half (50.2 percent) of the voting-age population, below the 51.1 percent mark set by the 1948 Dewey-Truman election and the lowest level since 43.9 percent of age-eligible voters turned out in 1924. The sheer magnitude of nonvoting in contemporary America is staggering: more than 91 million Americans did not bother to participate in 1988. And if turnout remains as low in 1992 as it was in 1988, which seems likely, given widespread voter dissatisfaction, more than 94 million voting-age Americans will not participate this November.

This dismal situation has occasioned much comment and concern across the political spectrum. The concern is welcome, but it has also been accompanied by a great deal of misunderstanding about the causes and consequences of low voter turnout. Much of the misunderstanding resides in a series of myths about voter turnout that lack any real empirical foundation. Dispelling these myths is, I believe, essential to improving citizen participation levels.

Myth #1: Turnout is going down because the poor are dropping out of politics. According to this myth, declining turnout is primarily due to massive increases in nonvoting among the poor. As a result, the affluent, who continue to vote, dominate the political process while the poor are ignored.

Reality #1: Turnout is going down because all groups—the poor, the middle class and the rich—have become less likely to vote. Although it is true that turnout decline has been sharper among the poorer groups in society, turnout has been falling steadily among all income groups, including the most affluent. For example, if we divide the

U.S. electorate into six equal-sized income groups (“sextiles”), we find that, although turnout de-

clined 8 percentage points among the lowest sextile between 1972 and 1988, it also fell 5 points among the highest income group. Results are similar if we look at groups defined by education or occupation: declining turnout has, as it were, been a “team” effort, with all strata of society making a contribution.

Myth #2: Turnout is going down because people see no differences between the Democrats and Republicans. This myth locates the source of turnout decline in the supposedly self-evident fact that no one sees any real differences between the political parties anymore. And, naturally, since citizens now see no differences between the parties, they choose not to vote.

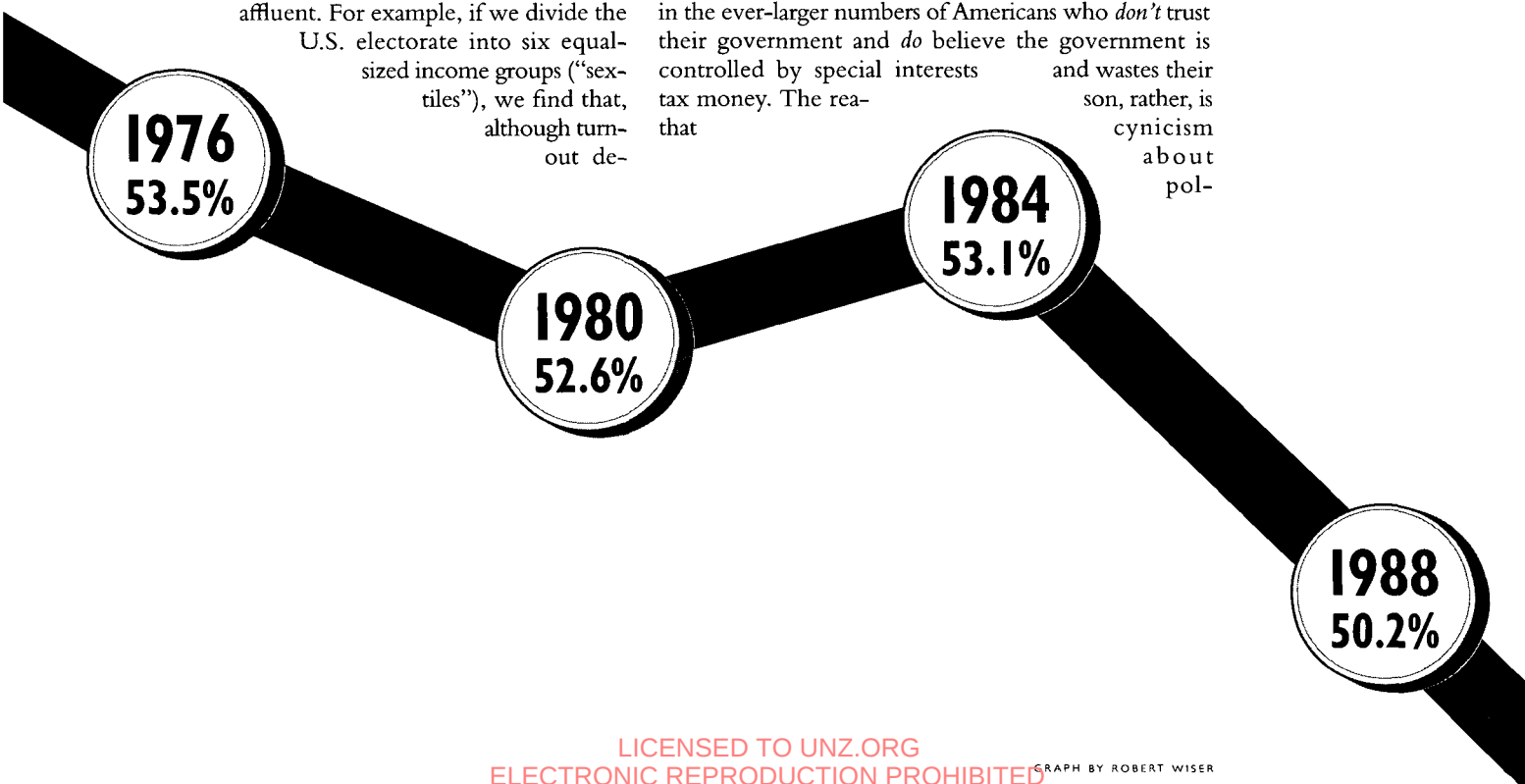
Reality #2: More people see important differences between the Democrats and Republicans than they did three decades ago. Survey data show that the proportion of the electorate that sees important differences between the Republicans and Democrats actually increased by 9 percentage points (from 50.3 percent to 59.6 percent) between 1960 and 1988. Now, it is certainly possible that people find it increasingly difficult to know what these differences mean, but the fact remains that they are more likely, not less likely, to see differences. It follows that the popular perception of whether the Republicans and Democrats differ has nothing to do with falling turnout levels (indeed, if anything, turnout should have gone up because of this factor).

Myth #3: Turnout is going down because people have become so cynical about politics. Nobody trusts the government anymore. Everybody believes it is controlled by special interests and wastes tax money. Guided by these sentiments, citizens do the appropriate thing: they refuse to vote (“it only encourages them”).

Reality #3: Increasing cynicism about politics has little, or nothing, to do with declining turnout. This is not because cynicism about politics hasn’t increased. It has, reflected in the ever-larger numbers of Americans who don’t trust their government and do believe the government is controlled by special interests and wastes their tax money. The rea-

son, rather, is cynicism about pol-

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The Disappearing
American Voter
(Brookings, 1992),
from which this article
is drawn.



The idea is
to make
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easier to
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and less
susceptible
to political
manipulation.

itics characterizes all citizens and does little to distinguish voters from nonvoters. For example, statistical analyses show that, all else equal, someone who doesn't trust the government is no less likely to vote than someone who does trust the government. It therefore follows that trust in government can go down drastically (as it has) and still not depress turnout levels.

The attitudes that do lie behind declining turnout appear to have more to do with a general sense that the government is not responsive to ordinary citizens and a feeling that politics is not worth paying attention to, in even the most minimal fashion. It is thus *indifference* to politics that is keeping citizens away from the polling booths, rather than active hostility or lack of trust. The latter is simply the common currency of American public opinion; the former is the particular coin of the electoral dropout.

Myth #4: Nonvoters don't vote because they are satisfied with the way things are. Low turnout is nothing to worry about, since lack of participation simply reflects how happy people are. Why vote, when there's nothing to get upset about?

Reality #4: Levels of satisfaction have nothing to do with turnout. There is simply no evidence that how satisfied people are—with the system, with their personal finances, with their life in general—has anything to do with how likely they are to vote. Therefore, a plethora of happy people cannot explain why U.S. voter turnout is so low.

Conversely, there is no reason to believe that those who do currently vote are the “contented” ones, as John Kenneth Galbraith asserts without a shred of evidence in his recent book, *The Culture of Contentment*. The reasons why people vote are many and complex, but how happy they are does not appear to be one of them.

Myth #5: Nonvoters don't vote because the policies they prefer aren't represented in contemporary politics. People are staying away from the polls because the two major parties aren't providing them with the policy choices they are interested in. Why vote, when the policies you believe in are not advocated by either the Democrats or the Republicans?

Reality #5: Voters and nonvoters differ very little in terms of their policy preferences. Looking across a wide range of issues—the economic role of government, defense, the environment, social issues like abortion—nonvoters' and voters' positions vary only modestly from one another. Specifically, nonvoters are slightly more liberal than voters on the economic role of government and slightly less liberal on defense, the environment and social issues. But the differences are nowhere very large and, in some cases, barely there at all.

It therefore follows that nonvoting cannot be attributed to nonvoters' thirst for alternative policy positions, since their views appear quite mainstream. It also follows that current levels of nonvoting have little immediate effect on the policies formulated by government, since the policy preferences of an augmented electorate, including all current nonvoters, would differ little from those of the current electorate. Thus, whatever the pernicious effects of low voter participation,

biased public policies, at least in the short run, should not be numbered among them.

Myth #6: Republicans keep getting elected because of low turnout. Because nonvoters are drawn disproportionately from groups—the poor, those with low education, blue collar workers, minorities—that are traditional Democratic constituencies, Republican candidates must be benefiting considerably as increased nonvoting removes more and more reliable Democratic voters from the electorate.

Reality #6: The Republicans would have won anyway. Although low turnout has probably been of marginal assistance to some Republican candidates, there is little evidence that this assistance has made the difference between victory and defeat. The key for the Republicans, instead, has been the relatively high levels of support they have generated among the middle class, broadly defined. With such strong support among the bulk of the electorate, the Republicans would have won these elections anyway, regardless of how high or low the level of turnout.

The past two presidential elections, won, respectively, by Ronald Reagan and George Bush, provide a good example. If all the nonvoters had voted, would a Democrat be sitting in the White House today? Not according to data from the University of Michigan's National Election Studies. In both cases, the Republican candidate would still have won—except by a larger margin! Not only is it incorrect to assume that widespread nonvoting is putting Republicans in office, it is also incorrect to assume that the Republicans necessarily gain from low turnout (in certain elections, they might actually do *better* if more people showed up on election day).

Myth #7: Low black turnout has really been hurting the Democrats. Everyone knows that blacks heavily support the Democratic party. And everyone knows that blacks vote a lot less than whites. It therefore follows that low black turnout must be a critical factor in the Democrats' current problems.

Reality #7: The Democrats would have lost anyway. While levels of black support (generally 85 percent and over) have been important to Democratic candidates, levels of black turnout have not been much of a factor, positive or negative, in Democratic fortunes. Democratic losses, in particular, have almost always been attributable to weak support levels among the white middle class, rather than low black turnout.

Consider, for example, the 1988 defeat of Michael Dukakis by George Bush. If black turnout and white (non-Hispanic) turnout had been the same (black turnout was about 10 percentage points lower), Dukakis would have gained about 1,442,000 votes. And if black turnout had somehow been 10 points higher than turnout among whites (that is, 20 points higher than it was in reality), the Democratic gain would have amounted to about 2,884,000 votes. But Dukakis lost the election by more than 7 million votes.

Nor do these results change if one focuses on state-by-state results in the Electoral College. If black turnout had been 20 points higher in every state that Bush won, only Maryland, Illinois, and Pennsylvania would have

been added to the Democratic column. Thus, even under these circumstances—which represent unrealistically high levels of black mobilization—Dukakis still would have suffered a lopsided (367–171) loss in the Electoral College. Low black turnout has not been the Democrats’ problem: lack of support among the rest of the electorate has been their Achilles’ heel.

Myth #8: A lot of elections are decided by levels of voter turnout. One of the most common nuggets of political wisdom is the assertion, after a given election, that “so-and-so lost the election because of low levels of turnout [of group X]” or “so-and-so won the election because of high levels of turnout [of group Y]”. These insights are believed to follow from observations (usually true) that the losing candidate was strongly supported by some group whose turnout was low or that the winning candidate was strongly supported by some group whose turnout was high.

Reality #8: Levels of turnout do not, as a rule, make much of a difference to election outcomes. The statement that “turnout was the key” is one of the most common observations of political pundits—and also one of the least likely to be true. The fact is that the *intensity* of support for different candidates among different groups in the electorate, especially large groups, is far more important than turnout in deciding election outcomes. Indeed, given the Republican and Democratic support levels of different groups (that is, what percentage of white middle class voters supported the Republicans? what percentage of black voters supported the Democrats?), even large increases or decreases in the turnout levels of these groups would be quite unlikely to change the outcome of a typical election.

The contest last year between David Duke and Edwin Edwards for Louisiana governor provides a vivid illustration of this principle. According to many, if not most, reports about the election, Edwards’ victory could be attributed to a record high turnout among the black population (and it is true that black turnout was exceptionally high in this election). However, careful analysis of the election results reveals that, given Edwards’ support levels among whites (45 percent) and blacks (96 percent), black turnout could have been as low as 16 percent and Edwards *still* would have won. In other words, he could have won the election with a record *low* black turnout, instead of a record high black turnout. This illustrates just how hard it is to change the outcome of an election by raising or lowering the level of turnout.

Myth #9: Registration reform would really help the Democrats. Registration reform would bring millions of Democratic-leaning nonvoters into the political process, proving a tremendous boon for the Democrats and a disaster for the Republicans. (The force of this myth is illustrated by the continuing partisan divisions on this issue in Congress and President Bush’s veto of the most recent registration reform bill.)

Reality #9: Registration reform would have virtually no effect on the partisan leanings of the electorate. The political leanings of nonvoters and voters simply do not differ enough for the addition of even millions of nonvoters to make much of a partisan impact. In fact, analysis of

survey data reveals that an electorate expanded through registration reform would probably contain only 0.2 percent more voters with Democratic sympathies—hardly enough to justify popping champagne corks down at Democratic headquarters or flying the flag at half-mast at Republican headquarters.

Myth #10: There is nothing we can do to increase voter turnout, given the current sorry state of American politics. Massive nonvoting is a natural response to contemporary American politics, a response we would be foolhardy to try to alter. If people don’t want to vote, they won’t vote and that’s all there is to it.

Reality #10: There are quite a few things we could do to increase voter turnout, some of which are virtually certain to work. The fact of the matter is that most citizens’ decisions not to vote are very lightly held and relatively easy to change. For example, simply making it *easier* to vote, by reforming the personal registration system, would probably result in increased levels of voter turnout. Exactly how much of an increase is not certain, but the weight of the evidence is so strong that we can be virtually certain that the increase would be substantial. My estimate is an increase of about 8 percentage points, which translates into adding about 15 million voters to the electorate—a substantial expansion of citizen participation by any reasonable standard.

It may also be possible to increase turnout by improving voter motivation. It is true that many citizens currently lack even the most elementary political motivation. But we are not talking about turning America’s nonvoters into “political junkies” who follow every twist and turn of the campaign. Even a very low level of campaign involvement—perhaps just reading an article or two in the newspaper—or of knowledge about the candidates and issues or of faith the government is paying attention may be enough to turn a nonvoter into a voter. The key is breaking through the extraordinary *detachment* that many citizens have developed from the political process, so that they are connected, in even a minimal way, to the world of politics.

There are no sure remedies here, but a lot of plausible ones. They range from campaign finance reform to regulating television campaign commercials to issues-based media coverage of campaigns. The idea is to make the campaign process easier to get involved in, more informative, and less susceptible to political manipulation. We have good reasons to believe that if this goal can be accomplished, more citizens would step forward to participate. It does not take, after all, a great deal of motivation to vote, so even small gains in levels of voter involvement and understanding could pay large dividends on election day.

One might well ask: if myth number 10 is wrong and it’s so easy to get more people to vote, why is so little being done to increase voter turnout? Part of the answer lies with the nine other myths. They cast such an aura of confusion around the issue and generate so much partisan haggling that increasing citizen participation has been quite difficult. I believe it’s time to jettison these myths and bring tens of millions of Americans into the political process. We have little to lose and much to gain from such a move. ■

We have
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goal can be
accom-
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more
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FOREIGN POLICY FOR A POST-COLD WAR WORLD

A CLINTON ADMINISTRATION

BRUCE W. JENTLESON

Just as Dean Acheson, one of the key architects of the Cold War order, titled his memoirs *Present at the Creation*, so George Bush might title his "Present at the Collapse." The Berlin Wall has come down. The Iron Curtain has gone up. The Soviet Union has collapsed. The Cold War is over—and we, the United States and our democratic allies, have won.

The end of the Cold War presents enormous opportunities. It also poses formidable challenges. While the Bush administration can claim some of the credit for making these opportunities possible, it also must take its share of responsibility for failing to meet many of these challenges.

In September 1990, President Bush spoke to the nation of "a new world order . . . stronger in the pursuit of justice and more secure in the quest for peace . . . [in which all nations] can prosper and live in harmony."

Two years later, war is raging in Yugoslavia. The former Soviet Union and much of Eastern Europe are struggling shakily toward democracy. Freedom is still being quashed in China. Weapons of mass destruction are spreading. A new wave of coups threatens Latin America. The global environment is further degraded. Our own economy is in crisis. And the American public is feeling so leaderless and visionless as to flirt with new appeals to isolationism. One must ask, whither the new world order?

Indeed, with Saddam Hussein still standing (and controversy mounting over the Bush administration's pre-Gulf war policy), even the great victory of the Bush administration appears somewhat hollow.

The starting point for meeting the challenges of the post-Cold War world must be a genuine realization that foreign policy strength begins at home. This election cannot be about foreign policy or domestic policy; it must be about both.

As a nonpartisan blue-ribbon commission recently concluded, "America's first foreign policy priority is to strengthen our domestic economic performance." A nation that continues to allow its economic competitiveness to erode cannot do much

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about its nearly \$100 billion trade deficit. A nation with a more than \$350 billion budget deficit cannot provide much help to struggling new democracies around the world. A nation that continues without an energy policy will continue to be vulnerable to new crises in the Persian Gulf.

The reality is that both international power and national security are being redefined. Military power remains a valuable "currency," as the Persian Gulf war again demonstrated. It always will. But economic power has been appreciating in value, becoming more and more a "hard power" currency. Similarly, economic security is no less vital to national security than is a strong defense. Indeed, the lack of economic security in recent years has been the main reason why the American public has been feeling so insecure despite having won the Cold War.

Attention to economics does not obviate more traditional political-military concerns. War is not yet obsolescent; aggression remains a fact of international life.

The United States must, as Bill Clinton has stated, "be prepared to act, with military force if necessary, when our country's vital interests and values are threatened." The possibility that this may include unilateral military action cannot be dismissed. No American president ever should renounce or be unprepared for this option. We also should recognize, though, that the security dilemmas of the post-Cold War world are often best dealt with through multilateral action. The United States thus should seek when possible to work within the United Nations Security Council, and regional international organizations as appropriate, for collective action, both diplomatic and military, against aggressors and renegade states. It should increase its support for UN peacekeeping operations (including paying dues in arrears) and consider seriously the recent proposals by the UN Secretary General for enhanced preventive diplomacy and peacemaking.

The central requisite of defense policy remains a credible nuclear deterrence posture. This can, however, be sustained at significantly lower cost, with cuts of over one-third by 1997. But

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FOREIGN POLICY FOR A POST-COLD WAR WORLD

A SECOND BUSH ADMINISTRATION

HELMUT SONNENFELD T

The Bush administration took office as the era marked by the confrontations and anxieties of the Cold War was giving way to an as yet ill-defined new international order. Historic transformations in the Soviet empire were well under way, although their eventual extent and rapidity were far from clear. It was virtually impossible to predict how the multiplicity of variables on the loose in the world would evolve and to determine how the United States, as the single most powerful and influential world power, could help to shape them.

The pragmatic and broadly experienced Bush administration foreign and security policy team approached the gathering momentum of change positively but with caution. It was concerned that pressuring the Gorbachev regime toward ever more concessions could produce a nationalist and reactionary backlash at a time when Soviet military power—and indeed the basic Soviet system itself—remained largely in tact.

Bush and his associates are committed internationalists. They see the external and domestic purposes of the United States as intimately connected. Like their predecessors after World War II, they are determined not to repeat the post-World War I abdication from international engagement and leadership that contributed to the disasters that ensued.

But they also recognize that the country's involvements abroad must be sustainable domestically. Sudden or repeated twists and turns, even when responsive to domestic pressures, can undermine both support at home and credibility abroad. While U.S. interests are far-flung, they are not all of equal weight. Establishing priorities and practicing selectivity have been a major administration preoccupation and embroiled it in inevitable controversy.

The Cold War, unlike World War II, did not end with the unconditional surrender of the enemy. Nor did the United States and its allies acquire rights in the Soviet bloc comparable to their post-World War II occupation rights in Germany and Japan. Moreover, while the defeat of Germany and Japan had to a con-

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siderable extent been planned for, the Cold War ended with unpredicted speed.

Widespread euphoria about the demise of communist regimes produced hopes that post-communist systems might be built with near-equal speed. But the Bush administration saw its initial priorities in winding down what was left of the Cold War, especially in the military and geopolitical realms.

While it moved promptly to encourage political and economic reform, its commitment to dismantling the Soviet military threat made it necessary to deal principally with what remained of central Soviet authorities and with Mikhail Gorbachev personally. The administration sought to avoid encouraging the haphazard breakup of the Soviet Union lest the resulting chaos and violence jeopardize both demilitarization and democratization. Opposition groups, and in particular Russian leader Boris Yeltsin, seemed to be slighted.

For a time, this approach (shared by other Western nations) made it appear that the administration was clinging to a dead past. Indeed, the administration's later reluctance to support the breakup of Iraq and Yugoslavia opened it to charges of letting history pass it by. But, in the case of the former Soviet Union, the administration is on the road to accomplishing much of what it sought on the military front; and it adapted promptly to the fall of Gorbachev and the old central government. It came to treat Yeltsin's Russia as a partner and principal Soviet successor for certain purposes but moved steadily to establish relations with the other successor states as well.

The administration had difficulty getting congressional approval for its contributions to multilateral economic and financial support for Russia and the other states. As in other matters, Bush has properly sought to internationalize or at least coordinate support for these countries, even at the cost of friction and compromise. Such an approach avoids excessive intrusiveness by the United States in the recipient countries and, for what will inevitably be a long-term and often frustrating undertaking, is best calculated to elicit sustained domestic backing.

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the debate needs to be extended from the size of the cuts to the strategy for restructuring. A strong commitment to NATO should be maintained and can be, at lower troop levels, perhaps 75,000–100,000. In general, we must move our conventional forces toward a more flexible mix of capabilities, mobile and rapidly deployable for both deterrent and warfighting purposes.

Above all, our defense must rest on maintaining our military technological superiority and on sustaining the top quality and high morale of our troops.

The United States also must make a higher priority commitment to stopping the spread of weapons of mass destruction (nuclear, biological, and chemical). Both the Reagan and Bush administrations ignored warnings, some as early as 1985, that Iraq was using U.S. and European technology to develop nuclear and chemical weapons. We must be much more consistent in formulating and enforcing export controls on such technology. The Missile Technology Control Regime and the toughening of the International Atomic Energy Agency are a start, but much more needs to be done at the multilateral level.

Precisely because Vaclav Havel, Boris Yeltsin, and others drew inspiration from the American ideals of democracy, there is a sad irony to the very little, very late support the Bush administration (and, yes, Congress) have provided to democrats and democratization in the former Soviet Union and much of Eastern Europe.

The proposition that we can best promote democracy in places like China by supporting governments that repress it should be seen for the fallacy that it is. So too with the look-the-other-way attitude toward the likes of Saddam, as when he used chemical weapons against the Kurds in 1988 and continued to support terrorists including Abu Nidal and Abu Abbas. Even among those who supported the war to liberate Kuwait, Bush's willingness to simply re-install Kuwait's Emir and soft-pedal democratic reform remains a point of contention.

America's ideals are more than altruism. They are a source of genuine power ("soft power," in Joseph Nye's term). We put our power no less than our principles at risk when our diplomacy fails to live up to our most basic values. Or, for that matter, when we at home fail to live up to them. A nation that allows its social problems to mount—its educational system to decline, its once-

great cities to decay, its crime rate to shoot up, its race relations to fester—may find its claim to moral leadership increasingly questioned around the world.

Yet another sad irony is that the nation that invented Earth Day became the nation that sought to wreck the Earth Summit.

Here too we must see the traditional dichotomy for the false choice that it is. The issue is not environment vs. jobs. Indeed, with the demand for new technologies and new equipment, environmental protection has substantial job-creation potential.

The fundamental point, though, comes back to the conception of security. How secure can our nation, or any nation, be amidst global environmental degradation? Security cannot be compartmentalized, and it shouldn't be partial. It must be comprehensive. Moreover, as Senator Al Gore has put it, unless we recognize our "stewardship" for the earth, a genuinely mutual interest shared by all nations and all peoples, what prospect do we really have for forging cooperation in other areas of international life?

American foreign policy in the years ahead must be guided by four fundamental precepts. First, the United States must not shrink from world leadership. Our own interests are best served by international engagement, not isolationism. And while a much greater degree of multilateralism is both prudent and necessary, the United States remains the preeminent power in the world, especially militarily.

Second, our international power requires a strengthened domestic base: a revitalized and competitive economy and a public once again convinced that its president is not less engaged in problems at home than abroad.

Third, too many issues like nonproliferation and the global environment have been given too low a priority for too long. These are threats to our security, and must be dealt with as such.

Fourth, we must be true to our democratic ideals. It is the realist, not just the idealist, who does not coddle dictators and who sees yet another link between our world position and our societal problems.

In sum, the opportunities before us are many, but so are the challenges. We need a new vision and a dynamic, comprehensive strategy to take advantage of those opportunities and meet those challenges. ■

THE STARTING POINT FOR MEETING THE CHALLENGES OF THE POST-COLD WAR WORLD MUST BE A GENUINE REALIZATION THAT FOREIGN POLICY STRENGTH BEGINS AT HOME. THIS ELECTION CANNOT BE ABOUT FOREIGN POLICY OR DOMESTIC POLICY; IT MUST BE ABOUT BOTH.





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Progress toward successful market economies and functioning democracies will be halting at best. The administration has been correct to construct a broad-based international support structure through existing and newly created institutions. It has played a major role in using the G-7 head-of-government forum as a coordinating instrument. But the basic transformations must be accomplished by the people of the Eastern countries themselves.

The administration has also pressed for or supported including these countries in Atlantic and European security organizations. Not surprisingly, the way these groups will meet the diverse interests of all their member countries is still evolving.

But a workable framework has been established, as it has in the task of adapting Atlantic links to the tortuously emerging European Union. The administration has sought to ensure a continued U.S. security presence in Europe, though at greatly reduced levels and with different aims. It has correctly rejected pressures to treat NATO as a wasting asset and at the same time has had to fight off European assumptions that these pressures will, before long, force the United States to disengage.

Mobilizing international institutions and assembling special coalitions was a hallmark of the administration's response to the Iraqi occupation of Kuwait. Perhaps ironically, the earlier and probably too long pursued effort to draw the Saddam Hussein regime into constructive relationships with the United States and other countries facilitated the subsequent resort to multilateral action against Iraq. In the process, the United States led the United Nations Security Council toward unprecedented use of enforcement mechanisms envisaged or implied by the UN Charter. Bush's diplomacy drew both the former Soviet Union and China into the effort—a skillful use of opportunities opened by the changes then under way in Moscow.

Coalition diplomacy, along with consensus-building in Congress and the U.S. public, led the administration to limit the goals of military force against Iraq. Its restraint has come back to bite it since Saddam Hussein, while severely curbed in his regional ambitions and ruling a badly damaged country, unleashed his vengeance against the Kurds, Shiites, and others in his domain.

The administration may have been too cautious in interpreting its international and domestic mandates to stop Saddam's depredations, but it was almost surely right in assuming that open-ended resumption of military action could easily have ruptured the coalitions it had forged. Instead, it once again operated within a workable consensus that has continued to hold. Similarly, it has remained within a policy framework commanding a Security Council majority in coping with Iraq's repeated efforts to subvert cease-fire and other UN-imposed conditions.

Commitment to international consensus has also marked administration policy on Yugoslavia, whose breakup presented acutely complex and painful choices.

Reliance on maximum achievable consensus has subjected the

administration, in the Iraqi, Yugoslav, and other cases, to charges of callousness and passivity—frequently from those who, in other situations, criticize it for insufficient commitment to international institutions and norms.

The administration in fact has not abandoned unilateral policies and actions; indeed, that very fact has often worked as leverage to obtain international support. But those who get impatient with the compromise and delays associated with coalitions and international action must also weigh the costs and risks of unilateralism, not just in regard to military action.

Bush himself earned much opprobrium for failing to join a consensus that he could not change sufficiently at the Rio conference on the environment this summer. In regard to China, Bush has been much criticized for failing to use economic sanctions in response to Beijing's repressiveness. But his policy puts Bush within a broad international consensus and gives the United States more leverage against the Chinese regime on issues ranging from human rights to trade to weapons nonproliferation, than would a punitive policy.

The administration's China policy is a facet of its efforts to shape the post-Cold War politics and economics of the Asian-Pacific region. In that region of enormous expanse and diversity, U.S. involvement is seen as indispensable, particularly in preventing the rise of hegemonic powers. Progress toward pacifying and perhaps unifying the Korean peninsula also engages U.S. interests, and the administration has properly given it major attention. Massive U.S. economic interests have led the United States to participate actively in the region's multilateral organizations.

The end of the Cold War and the use of coalition diplomacy and force in the Gulf crisis opened opportunities for the United States to breathe new life into the Arab-Israeli peace process. There the U.S. role is unique, and often thankless, and the administration has displayed persistence, patience, resourcefulness, and, when necessary, pressure to keep the process moving.

These and many other examples of U.S. engagement and leadership may be considered part of the "traditional" agenda. But distinctions among agendas are not particularly helpful. Agendas overlap and interact, whether old or new. Problems like the environment, poverty, disease, population, refugees, drugs, weapons proliferation, and human rights intertwine with those like regional conflict, the breakup of old states, the emergence of new ones, and the shaping of the global economic system. All are part of a global mosaic no longer dominated by the overriding need to prevent the Cold War from becoming hot or a ruthless totalitarian regime from spreading its power and practices. Fresh approaches, different organizational arrangements, and new adaptations of the American experience to the world around us are obviously warranted. They have come aplenty from the Bush administration and would continue to do so in a second term. But if the electorate should decide otherwise, the incoming administration will find itself well served by what it inherits. ■



MINDING THE REFLECTIONS ON REGU

PIETRO
S.
NIVOLA

For years, American trade policy has been busy battling the rest of the world's objectionable commercial practices. The time is ripe to reflect on what has spurred this arduous regulatory effort and what direction it should take.

A decade ago, the impetus for trade regulation seemed pretty simple to explain. Unusual conditions were severely straining America's comparatively relaxed attitude toward the inequalities and vexations of foreign trade. The national economy had suffered its worst bout of unemployment and negative growth since the Great Depression. The effects of global economic competition on jobs and incomes loomed larger than at any time in the postwar period. As a share of GNP, the goods and services we bought and sold around the world had doubled since 1970. Increasingly, our imports vastly exceeded our exports. A number of major industries were battered by losses of market share at home and overseas. Payrolls were cut and real wages restrained in much of the nation's industrial heartland. Under heavy pressure to slow or reverse the dislocation, the government moved inexorably to check the influx of imported products and to contest persistent obstructions abroad that burdened our exporters and investors.

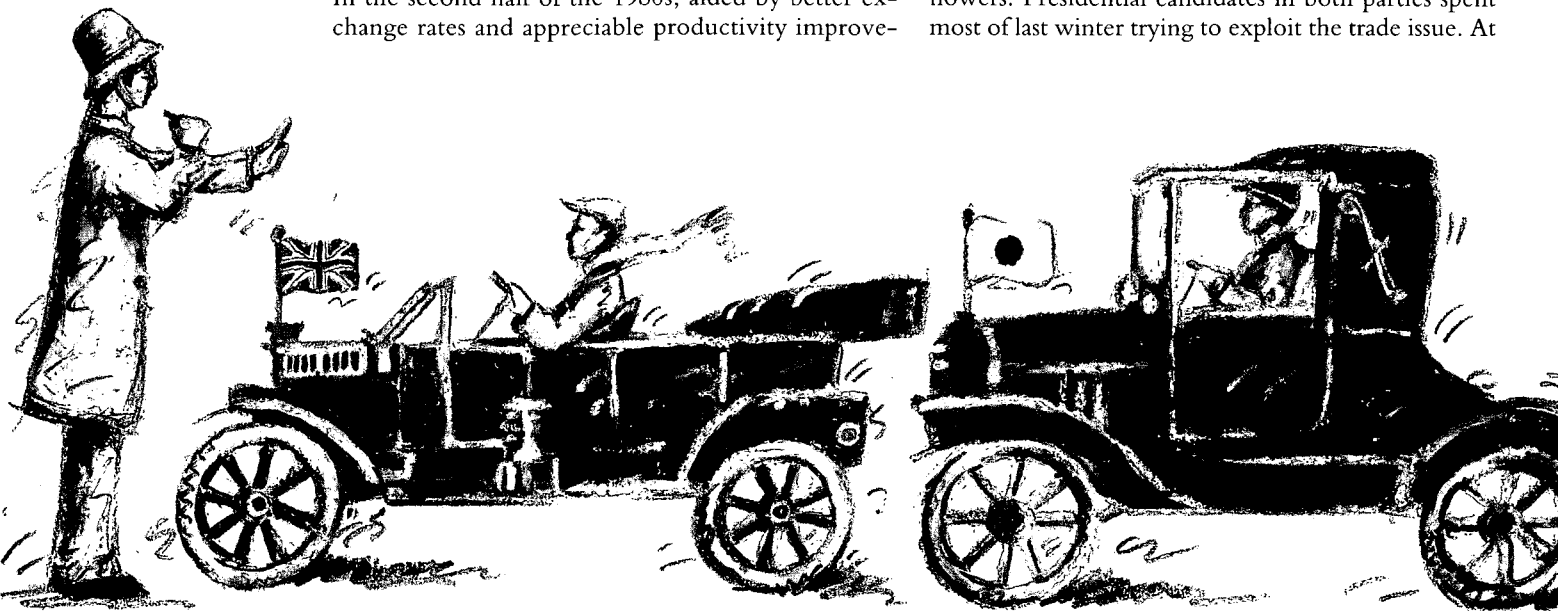
Puzzlements

But circumstances more recently have been different. In the second half of the 1980s, aided by better exchange rates and appreciable productivity improve-

ments, American manufacturers of tradable goods began making a big comeback. Between 1986 and 1991, the volume of U.S. manufactured exports rose 90 percent, more than three times the average export growth of other industrialized countries. So strong was the resurgence that the U.S. share of the industrialized world's manufactured exports not only surpassed Japan's but helped shrink our trade deficit from almost \$160 billion to \$66 billion. It was quite a demonstration of commercial prowess for a nation supposedly in decline and stymied or no longer competitive in world markets.

Yet suspicions remained rife that Americans were "trade wimps," steadily losing ground to pernicious competitors. In the early 1980s the defensive tilt had been evident everywhere. Calls proliferated for protection from unfair imports, with such prominent industries as steel, automobiles, lumber, and semiconductors demanding relief. Congress entertained a great many punitive legislative proposals. The Democratic party's 1984 presidential nominee vowed to get "really tough" with trading partners.

While the mood during the past three years has not been quite so frantic, it has still been dreary. More formal objections to foreign commercial misconduct were raised in 1990 than 10 years earlier. Producers of steel, autos, lumber, and semiconductors have all filed new cases. Lawmakers have been drafting bills regulating imports of everything from jeeps to fresh-cut flowers. Presidential candidates in both parties spent most of last winter trying to exploit the trade issue. At



THEIR BUSINESS

REGULATING UNFAIR TRADE

one time it was thought that if only the gap between imports and exports would narrow, self-doubts about American competitiveness, fears of Japanese high-tech dominance, and complaints about foreign unfairness would fade. As I print this page (on a Hewlett-Packard laserjet hooked to a DEC personal computer probably equipped with an American-made Komag disc, Seagate drive, Read-rite magnetic head, and Intel microprocessor), the monthly trade gap is one of the smallest in nine years—but the self-doubts, fears, and complaints continue.

More Puzzlements

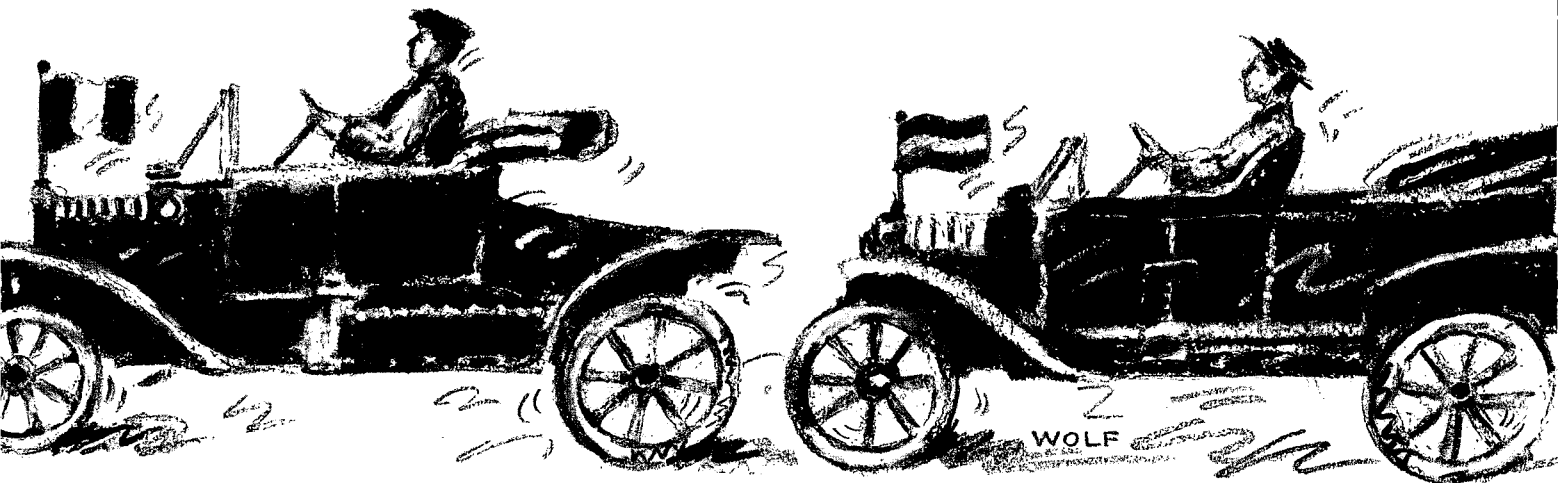
The chronic trade angst has no single, easy explanation. It has not solely tracked business cycles, rates of manufacturing productivity growth, or current account balances. Nor is it simply a matter of worsening barriers and abuses in the global marketplace, though genuine abuses and barriers persist and may matter more to American entrepreneurs now than they have in the past. The proverbial playing field is no less level now than it was back in the happy days of U.S. economic hegemony and trade surpluses. Despite a great deal of conjecture about rising foreign protectionism and a moribund General Agreement on Tariffs and Trade (GATT), world commerce and welfare grew strongly in the 1980s, and by the end of the decade our robust export sectors were leading the parade.

Up to a point, the heightened sensitivity to trade transgressions, real or perceived, may reflect a “diminished giant” syndrome. Our share of world markets is

not what it used to be, and, more important, our standard of living no longer dwarfs everyone else’s. Still, policymakers are not asinine; no one expects America’s relative economic stature to be the same today as it was in the 1950s, when shell-shocked economies elsewhere were barely recovering from the Second World War. Granted, as other industrial powers revived, stiff competition from them would eventually constrain real wage increases in this country. Yet family incomes, at least above the population’s lowest quintile, continued to rise in real terms over the past couple of decades. Properly measured (using purchasing power parity exchange rates), Americans have remained among the richest people on earth.

The gradual dissolution of the Eastern bloc was bound to bring Western commercial frictions to the fore. Each year there would be less reason to indulge the economic misdemeanors of allies in the interests of broader security objectives, and the absence of a common threat would diminish incentives for deeper cooperation. Witness the seemingly endless foot dragging and acrimony that have beset the current round of multilateral negotiations on services and agricultural liberalization, a project that the United States has been pushing uphill since the GATT ministerial meeting of 1982. Nonetheless, the post-Cold War vacuum, along with the disarray in the GATT Uruguay Round, can account for only some of our recent trade activism. The unstable setting may have accentuated disputes with Europe over farm subsidies, for instance, or with Japan over market access for cer-

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For all the political salience of foreign trade, the fact remains that the goods and services we export and import still amount to approximately 20 percent of our gross national product.

tain critical industries. But how could it explain, say, the numerous antidumping petitions directed at dozens of other countries exporting items such as shopping carts, stackable patio chairs, roses, appliance plugs, kiwi fruits, martial arts uniforms, and key pads for woodwind instruments?

Understanding the Phenomenon

Much regulation of so-called unfair trade has little to do with grand geopolitical considerations or with strategic products. Instead, it performs a more mundane function that commercial policy, here or anywhere, has always performed: attending to the demands of anxious producers of all kinds for government support to defend or to improve their sales base, profitability, or jobs. This activity increased after 1980 not just because competitive pressure generally intensified, but also because we developed more ways and inducements to complain about those pressures. Unlike the rather indiscriminately protective tariff policies of an earlier era, our modern regulatory apparatus administers redress to aggrieved victims. This tack offers at least a couple of important political assets. One is that it avoids touting raw protectionism, even though it may produce some of the same results. Another attraction, undeniably, is that it affords a measure of moral authority. If the U.S. economy was extraordinarily protected in the first third of the twentieth century, American markets in the last part of the century have been more hospitable than most. “Reciprocal access” is the battle cry of contemporary trade warriors. It is not a protest without foundation.

In addition, the promise of trade remedies has attracted more interest over the past dozen years as other forms of government aid for businesses and workers have run into fiscal constraints. Interest groups drawing less adjustment assistance, for instance, may well insist on greater import restraints. Such remedies, admittedly, have caused considerable frustration because

they often fail to deliver the comfort imagined. But these shortcomings scarcely seem to lower expectations. On the contrary, they have frequently evoked desires to impose more rules and regulations.

Challenges

While the United States remains an industrial colossus, decidedly capable of holding its own in international competition, complacency is not warranted. Problems exist. Some are not of our own making. Americans cannot overlook foreign economic *dirigisme* when it clearly has distorting and corrosive effects on the global trading system and on our own world-class companies. When the European Community refuses, after years of negotiations, to comply with rulings by GATT panels against subsidies that violate international obligations, the U.S. government has reason to threaten retaliation. If vestiges of Japanese infant-industry protection continue to impede sales of superior American products (from supercomputers and satellites to cellular phones), affirmative action is in order. Realistically, it is also impracticable to remain aloof from the adjustment problems of some less competitive domestic industries.

The public interest is ill-served, however, when preoccupations with trade inequities and the animus they generate divert our limited energies from tasks that are more fundamental to the nation’s long-term welfare. For all the political salience of foreign trade, the fact remains that the goods and services we export and import still amount to approximately 20 percent of our gross national product. That ratio has stayed more or less the same since 1980, and it remains small compared with that of many other developed countries. It ought to give pause to politicians and pundits who declaim, year after year, that “trade is the most important issue we face.”

The more insidious threats to the American economy continue to come from our comparatively low

levels of saving and investment, glaring deficiencies in elementary and secondary education, excessive health care costs, regulatory deadweight, and oppressive litigiousness. Some of these self-inflicted disabilities (the saving and investment lags) are root causes of trade deficits; all are a drag on national productivity growth, hence on future living standards. It is not as though lawmakers have been oblivious to these fundamentals. Leading trade activists often concede that their “really tough” proposals would only operate on the margins of economic problems, not at the core. But at the end of the day it has been the trade bills, not the other imperatives (fiscal balance, worker training, health care reform, less adversarial regulation), that repeatedly attract large legislative majorities and make their way into law.

The trouble with piling too much of the burden of economic policy on trade regulators is that their exertions, no matter how valiant, cannot fulfill the inflated expectations. The 1988 Omnibus Trade and Competitiveness Act helped persuade a few newly industrialized countries to be more respectful of certain patents, trademarks and copyrights; a couple of others to appreciate their currencies; one to cease barring foreign travel agents, advertising firms, and cosmetics wholesalers; and so on. Accomplishments like these are not meaningless, but neither are they the bedrock on which rest big improvements in American living standards and international competitive strength.

Prying open doors for U.S. exports and investment in Japan seems more worthwhile, but it too is no panacea. So long as Japan saves six times as much of its income as the United States, Japanese industry will be able to invest more in new plant and equipment, Japanese productivity will continue to grow faster, and trade imbalances between the two countries will not readily disappear. Likewise, if schools in Japan and Germany prepare a more competent and adaptive work force, many products made in those countries will retain a qualitative edge and their manufacturers will move more rapidly along the learning curves in some emerging technologies. And no trade negotiator can do much about the fact that American corporations are often more encumbered than their foreign competitors by medical insurance expenses, the threat of litigation, and inflexible financial regulations, all of which make it harder for managers to plan for the long term.

The real challenge for the makers of foreign economic policy in Congress and in the executive branch is to help focus national attention on these uncomfortable realities instead of getting distracted by endless trade complaints and palliatives that leave the realities unchanged.

Hard Choices

It won't be easy. In part, our elected officials repair to trade regulation precisely because their other policy requirements face long political odds. A budget deficit stuck at more than \$300 billion drains about a third of the already meager U.S. national savings pool and pumps it into consumption. Eliminating the deficit could wipe out the trade deficit. But fiscal retrench-

ment that great is implausible, of course, without restraining entitlement programs. Outlays for Social Security and Medicare are not likely to be touched as long as voter turnouts among retirees remain higher than in the rest of the electorate.

Just as the bulk of federal spending seems to be off-limits, so is the use of consumption taxes, such as an impost on petroleum transport fuels. Between 1973 and 1990, U.S. oil imports rose from 36 percent to 50 percent of total use while Japan's fell almost 25 percent. A 50-cents-a-gallon gas tax would convince us to guzzle less oil. It would also collect more than \$50 billion in revenues. Prices at the pump would still be lower in real terms than they were in 1980, and far below those of virtually every other advanced country. But a serious energy tax remains an idea whose time never comes. After tempestuous debates in 1975, 1977, 1980, 1982, and 1990, Congress has managed to raise the user fee for gasoline by a grand total of 10 cents a gallon.

What about increasing private saving and investment? At a minimum, that would take another revolution in national tax policy. A system that allows broad interest payment deductions on loans, exempts most transfer payments, and effectively taxes savings twice (first on earnings, then on interest from those earnings) encourages debt and consumption. And arguably, limited taxation of long-term capital gains (as in Japan) stimulates more investment than indiscriminate taxation of those gains at the same rate as ordinary income (as in the United States). The 1986 Tax Reform Act eliminated deductions for interest on consumer loans but continued to shelter multiple home mortgages and interest on home equity lines of credit. Tighter caps on these implicit subsidies are a dim prospect. How to obtain lower rates on capital gains, without more dubious revisions in the tax code (like a deficit-inflating tax cut for the “middle class”), is far from obvious.

Similarly, political inertia makes it unlikely that U.S. employers will soon be relieved of onerous health insurance costs, frequent legal scrapes over everything from product liability to hiring decisions, and unusual institutional constraints, including a heavily regulated financial system.

The item that seems to have drawn the greatest interest, and a mixed bag of experiments by local governments, is education. Progress toward educational reform is running afoul of at least two social trends, however. First, it is hard to imagine how significant strides can be made, or even measured, without some form of standardized achievement testing. So far, this essential anchor has proven impossible to embed amid the currents of academic multiculturalism increasingly in vogue. The second impediment is the instability of the American family structure. Family background characteristics have long been recognized as the main determinants of scholastic performance. Can any school reorganization, however desirable, offset the dysfunctional effects on children of the explosion in divorce, out-of-wedlock births, single-parent households, and dual wage-earner families—all of which have meant that parents, on average, spend 17 hours a

week with their kids, down from 30 hours a week in 1965? Plainly stated, how generations raised with this “parenting deficit” can be disciplined to study proficiently remains a mystery.

A Role for Trade Remedies

Even though these basic aspects of the nation’s competitive vulnerability are daunting, it remains crucial to keep them in sight. Despite a natural tendency to keep elsewhere for perceived economic failings, trade decisions could be made to complement, rather than subordinate, the primary agenda.

The problem of providing emergency relief to industries hammered by foreign competition is a political fact of life and cannot be wished away. When relief is granted, however, it should come primarily in the form of straightforward safeguard protection, rather than through the arcane rules against “unfairly” traded imports. Section 201 of the U.S. trade laws was meant to provide the safeguard. It has fallen into disuse as trade litigants have increasingly found the antidumping and antisubsidy provisions to be weapons of choice. With reasonable modifications, along the lines recommended by Robert Z. Lawrence and Robert E. Litan in *Saving Free Trade*, section 201 could be made viable again. As well it should, for this instrument, unlike the others, minimizes polemics about unjust prices and practices and offers a means of responding to economic hardship with less emphasis on blame and odium. The less political energy is dissipated exporting blame, the more may be available to address the domestic economy’s deeper needs.

When it comes to adjudicating complaints about foreign dumping and subsidies, policymakers should ask not merely what a corrective trade action can do for the petitioner, but what it does for the country—that is, the national welfare and security. Currently, the antisubsidy regulations make little attempt to distinguish between subsidies that clearly distort international commerce and subsidies that do not, or that may even be offsetting some distortions. Neither the antisubsidy nor the antidumping proceedings differentiate between pricing patterns that pose an anticompetitive threat and patterns with procompetitive effects that may be conferring dynamic net benefits on the economy as a whole. As Richard Boltuck and Robert E. Litan have shown in *Down in the Dumps*, a number of relatively simple procedural changes could improve the administration of these laws without requiring any new legislation.

Because presidential control of trade policymaking is not a constitutional right, but a power delegated by Congress, no president can afford to ignore congressional concerns about unfairness in international trade. Credibility on Capitol Hill can be enhanced by acting forcefully when the case for decisive action is sound. The economic logic of antidumping measures directed at competitive global industries whose only misbehavior is to be selling at different prices in different markets may be suspect. But when a foreign monopoly or cartel is doing the selling—and driving out U.S. producers, preparing to gouge, or seeking to exercise market power in other ways, such as limiting foreign

access to new technologies in other product markets—regulators are on much firmer ground. Indeed, they may be well advised to intervene early, before the domestic industry has been irreparably damaged, particularly when the industry at risk is vital to security. Since 1962 the president has had the authority to order restrictions on any article “imported in such quantities or under such circumstances as to threaten to impair the national security.” This mandate should be used discerningly, but forthrightly, as intended.

Opening Markets Abroad

Finally, trade officials cannot abandon the struggle to improve market opportunities for U.S. exporters and investors, particularly in advanced economies like Japan’s. There are economic reasons to persevere. Export growth helps brighten the nation’s economic future. Improved terms of trade can (modestly) raise American living standards. Important high-technology industries, if permitted to attain greater scale economies, could gain more ground. Political considerations also argue for continued market opening. Persistent barriers in markets abroad provide today’s neoprotectionists with the justification they badly need to press for compensatory import bars.

How to keep the quest for equitable access from sliding down the slippery slope to managed trade, or how to discourage supplicants from constantly expecting a government-led sales pitch, is far from certain. Yet the federal trade bureaucracy is not without brakes to control the skid. Trade officials, like trial lawyers, prefer clients they can readily defend and suits they can win. They also prefer a receptive international jury. The U.S. Trade Representative has generally gone to trial, so to speak, with a precise brief, enough friendly witnesses, and a willingness to abide by internationally codified rules of evidence. This helps explain why American negotiators have been able to chalk up a number of significant victories in recent years.

Underlying respect for the GATT and the existence of reasonably coherent American aims for strengthening it have contributed to greater tactical selectivity. As long as this scaffolding holds up, it remains possible to set some priorities among trade cases and to work effectively with the most promising ones. In deciding which sectoral disputes to pursue on a bilateral basis, the chances of success are probably improved by hewing closely to issues on which the United States can cite not only a degree of support from constituencies in the target country, but a clear violation or deficiency of the GATT that is acknowledged in the international community.

No Pain, No Gain

A record of well-managed dispute resolutions can quell some congressional agitation and perhaps lessen the frustration that stirs demands for additional regulation. Yet none of the administrative solutions can cool off the overheated politics of trade unless expectations become realistic.

The principal responsibility for setting sensible expectations for commercial policy rests with the president. Politicians know what a majority of the Ameri-

can public suspects: the country's ability to compete economically depends more on maintaining internal fitness than on protesting external conditions. Moreover, people suspect that the politicians know this. When presidents imply that the key to "jobs, jobs, jobs" for Americans lies in foreign commercial concessions, voters may consider the message simplistic or escapist. For all the political pain associated with keeping the nation in firm competitive shape, ultimately there may also be a penalty for leaving an impression that a hamstrung government really expects to squeeze bigger gains from trade confrontations than from dealing with domestic structural priorities.

Raising the Stakes

Striking a better balance between corrective trade measures and other important tasks may require raising the political stakes and clarifying institutional responsibilities. The customary good cop, bad cop routine played by the president and Congress can have some advantages in trade negotiations, but may also be furnishing both institutions with too much cover. The role playing has been a factor in numerous "voluntary" restraints to curb imports and in other negotiated arrangements for managing trade, where the executive, claiming duress, cuts the deals while the legislature postures.

Opaque trade quotas ought to be banned under the GATT and replaced by transparent tariffs. The imposition of tariffs, like other taxes, ought to require a vote of Congress, as the framers of the Constitution intended. And the proceeds from the protection ought to go toward federal deficit reduction rather than into the pockets of overpaid corporate executives and foreign exporting cartels (as several "voluntary" restraint agreements have done). Decisions on segmenting or restricting markets, if made at all, should be reached in the open, subject to the same political rigors (like visible roll

calls) as other difficult choices about economic policy.

The assumption that the American trade policy process suffers whenever Congress is presented with a polarizing choice is questionable. An administration defending a regime of liberal trade may wind up better off debating its dissidents than trying too hard to co-opt them. The reason is clear: most lawmakers are not anxious to restore outmoded protectionism. They know that a reprise of the Smoot-Hawley syndrome would constitute, in the words of Senator John C. Danforth, "an act of gross stupidity." And their prudence becomes particularly keen when they have to stand up and be counted on decisions of high saliency.

Viewed this way, it becomes easier to understand how, within a matter of weeks, the same legislators who, in the 1988 trade bill, added new refinements to the art of import administration were also willing to endorse overwhelmingly an historic opening of the commercial border with Canada. Amid the technical minutiae of dumping and subsidy regulations, or the twilight zone of negotiated industry-specific quotas with "arrangement countries," a majority of congressmen found it irresistible to tighten the regulatory screws. When it was time to vote either for or against open trade with Canada, however, only one legislator in nine found it expedient to look like a spoilsport. Likewise, in the spring of 1991, Congress dutifully went along with an extension of negotiating authority for the Uruguay Round and simultaneously authorized talks on enlarging the North American free trade zone to include Mexico. Again, as one chastened opponent of this initiative found, voting against free trade was scorned as "not looking out for this country's interest." It is "almost a shameful thing," he concluded, "to be labeled a protectionist."

That agreeable generalization may not last forever, but neither should it be dismissed prematurely as passé. ■

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The Enterprise for the Americas Initiative

WHAT WASHINGTON WANTS

When President George Bush announced the Enterprise for the Americas Initiative and called for closer U.S.-Latin American economic ties in June 1990, he was under no pressure to issue a major policy statement on Latin America. He had, in his year and a half in office, already introduced important changes in U.S. policy toward the region—most of which were welcomed in Latin America and applauded by the U.S. Congress.

Through the so-called Brady Plan for reducing Latin America's commercial bank debt, announced early in Bush's term, Washington had at last endorsed significant debt relief for Latin America's massively overborrowed countries. Although implemented slowly and providing relatively meager relief, the Brady Plan was, by mid-1990, producing its first results in Mexico and Costa Rica.

The White House had also achieved the key U.S. objectives in Central America. General Manuel Noriega was gone from Panama and the Sandinista government had lost power in Nicaragua. Realistic hopes were emerging for a negotiated settlement in El Salvador. Finally, the December 1989 invasion of Panama, which many had argued would revive strident anti-Americanism in Latin America, seemed largely forgotten in most of the region.

Contrary to some speculation, the Initiative and its proposal for hemispheric free trade was not designed as a Western Hemisphere alternative to the world trading system governed by the General Agreement on Tariffs and Trade. Nor was it a warning to Europe and Japan that the United States could readily pursue a hemispheric trade strategy should they fail to make the concessions needed to produce a satisfactory outcome in the Uruguay Round of GATT negotiations (which

Peter
Hakim

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were supposed to be concluded by the end of 1990). After all, Latin America offers a limited market for U.S. exports, and Japan and Europe know that. Only 13 percent of U.S. exports now go to Latin America, down from 17 percent in 1980. And more than half of those go to Mexico, with which the United States was already preparing to initiate free trade negotiations.

U.S. producers and consumers would gain from expanded trade with Latin America. But most of the gain would come from Mexico anyway, and a Western Hemisphere trade bloc could not begin to offer the United States an attractive alternative to an open world trade system.

The Initiative was, in short, not launched under duress, nor was it intended to set a new course for U.S. trade policy. It was instead a fresh statement of U.S. policy toward Latin America. And since its launching it has become the centerpiece of U.S. relations with Latin America.

Putting Together the Initiative

A variety of considerations went into the Initiative's formulation. First, Latin America's economic troubles were a concern for Washington. Latin America's depression was hurting the U.S. economy. The United States was running a big trade deficit with nearly every Latin American country, as the region's import capacity remained stagnant, and U.S. banks continued to suffer the mounting arrears of Latin American debtor countries. Probably more important, however, was Washington's worry that unrelenting economic adversity was threatening the region's new democracies and fueling the illicit narcotics trade. These dangers were forcefully brought home to President Bush and his advisers at the January 1990 summit meeting in Colombia with the presidents of the three main drug-

producing countries, Bolivia, Colombia, and Peru.

Second, Washington wanted to reinforce the region's growing trend toward free markets and liberalized trade. Every component of the Initiative included strong incentives for economic restructuring; every benefit was conditioned on market-oriented trade and investment-promoting reforms. The promised debt reduction, investment benefits, and trade gains were all reserved for countries that pursued market policies, privatized state-owned companies, and reduced import barriers. The Bush administration was determined to strengthen regional leaders already committed to this course and to encourage governments that were still wavering.

The Initiative was decisively shaped by the U.S. Treasury Department's view that what Latin America's economies most needed was not external financial support but sustained and thorough market reforms. These reforms, according to Treasury officials, would not only make Latin America a more congenial partner for the United States, but also offered the only formula for regional recovery and long-term growth. Most Latin Americans were, grudgingly, also coming to that view—or at least could offer no good alternatives.

Third, the timing of the Initiative was tied to the president's planned visit to five countries of South America, scheduled for early September but postponed until December. The White House wanted a positive agenda for the president's first extended trip to the region. It did not want attention focused on areas of possible friction such as the U.S. role in Panama, the clash of U.S. and Latin American views on narcotics trade, or the region's still massive debt burden. That the Initiative was launched just two weeks after the United States and Mexico announced a plan for free trade talks also suggested that Washington wanted quickly to reassure the rest of the region that U.S. interests there were not limited to Mexico.

Overall, the White House sought to put forth a policy initiative that would be viewed as significant in Latin America, and not greeted by cynicism or dismissed as irrelevant to the region's needs. Yet, constrained by the U.S. budget deficit, the administration was neither willing nor able to propose a major resource transfer to the region and, therefore, could not directly satisfy its most critical need—its shortage of external capital. The Initiative, and particularly its free trade proposals, turned out to be a politically effective solution to this conundrum. Designed as a structure of incentives to reinforce the region's own reform efforts, it was a "self-help initiative" that promised Latin America an eventual economic partnership with the United States once the region got its economies in shape and sustainable growth had resumed.

The White House tried to move quickly to implement the Initiative. By September 1990, bills were presented to Congress to proceed with the debt and investment provisions. But aside from a little debt relief, these provisions have been largely stalled, mostly because of larger questions over foreign aid expenditures. Early criticisms of the administration's proposals, including the harsh conditionality imposed on potential aid recipients, the vagueness on crucial details, the

paucity of assistance actually forthcoming, and the lack of consultation with Latin America, have since yielded to a larger concern that the implementing legislation may languish in Congress for some time to come.

Congress has so far formally acted only on the administration's request to allow for reduction of debt contracted under the Food for Peace program. What is still uncertain is whether Congress will authorize the bulk of debt reduction and approve the U.S. contribution to the proposed investment fund in the Inter-American Development Bank.

There are no serious substantive disagreements between the administration and Congress on the legislation. The problem is that neither congressional Democrats nor the Republican White House wants to be identified anymore publicly with overseas assistance programs. So the administration is reluctant to provide active leadership—and without such leadership Congress refuses to act. There is, in short, no one driving the process. Congress may not approve anything like enough funding to allow significant debt reduction and the establishment of the investment fund.

A Hemispheric Common Market

The legislative battles over the financing of debt relief and investment, however, are less important to most



countries of Latin America than are U.S. decisions regarding the timetable and procedures for moving toward the proposed Western Hemispheric Free Trade Area (WHFTA)—the most exciting component of the Initiative and the explanation for its enthusiastic welcome in Latin America.

Over the past few years, almost every Latin American country has begun to emphasize exports as the

best way to attract new foreign investment, increase national competitiveness, and promote long-term growth. Country after country in Latin America today is liberalizing its trade regime, cutting tariff and nontariff barriers, and seeking to emulate the export success of the fast-growing economies of East Asia. And the United States is the region's most crucial market. It buys more than half of all Latin America's ex-

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ports, and accounted for some 80 percent of the region's export growth in the 1980s.

Washington has not promised rapid progress toward hemispheric free trade. In announcing the Initiative, President Bush called free trade in the Americas "our long-term goal" that "may take years of preparation" to reach. In testimony before the Senate Finance Committee in April of 1991, Deputy U.S. Trade Representative Julius Katz said that creating a free trade area would take many years, "stretching into the next century." Katz suggested that only Mexico and Chile, of all Latin American countries, could conceivably conclude free trade agreements with the United States within the next two years, the period for which the administration has "fast-track" authority to negotiate international trade agreements.

The administration has not yet set a course for pursuing hemispheric free trade beyond Mexico. It has, however, consistently portrayed the establishment of a North American Free Trade Area (NAFTA)—extending the existing U.S.-Canada Free Trade Agreement to include Mexico—as the essential starting point for hemisphere-wide trade negotiations.

Unlike the rest of Latin America, Mexico is already closely tied to the United States. More than 70 percent of all Mexican exports are sold in the U.S. market, as

compared with some 35 percent of South America's exports. Existing U.S.-Mexican economic links have created an important constituency for further integration, including growing segments of the U.S. business community and national and local political leaders from the Southwestern states bordering on Mexico. The large Mexican-American community in the United States, although divided on the issue of free trade, strongly favors tighter relations overall. No other country in Latin America has this array of political, economic, demographic, cultural, and geographic impulses acting for closer ties. It is hard to imagine the United States pursuing free trade with any other country in the hemisphere if it cannot achieve an agreement with Mexico first. A NAFTA accord is, in short, the key to any future Western Hemisphere free trade arrangement.

Getting to NAFTA

Although it took some six months longer than initially projected, the governments of Mexico, Canada, and the United States finally agreed to the text of a free trade accord in mid-August. The accord must now obtain formal legislative approval in each country. This appears likely within the next year, but it is by no means certain. The U.S. Congress presents the biggest hurdle.

It was only 18 months ago that the opponents of U.S. free trade with Mexico failed to stop the extension of the fast-track negotiating authority that gave the White House additional time to conclude both a new GATT treaty and the NAFTA agreement. But they are prepared to thrash out all the issues again, and there are two critical differences that may make the opposition more formidable today. First, the dismal performance of the U.S. economy over the past year appears to have increased protectionist sentiments in the country. Second, the debate over NAFTA will this time be entangled with election year politics, making the course and outcome of that debate less predictable. Governor Clinton has persistently expressed support for NAFTA, but, along with Democratic leaders in Congress, he has called for stiff provisions to protect the environment and defend the rights of workers on both sides of the border. And these are precisely the two issues that will be at the center of contention.

Developments in Mexico could derail congressional approval as well. One or more blatant violations of human rights, for example, could provoke opposition, as could some particularly noxious environmental disaster there. President Salinas and other Mexican officials understand and take seriously U.S. political sensitivities on these issues. Witness, for example, the recent Mexican decision to shut down a heavily polluting oil refinery in Mexico City, as well as the government's quick response to Amnesty International's critical report on Mexico.

All told, however, a NAFTA agreement is likely to be approved. Although the debate begins now, the actual vote on the NAFTA accord will not take place until 1993, in the relative calm of a nonelection year. Whoever wins in November is likely to push for ap-

proval, recognizing the economic and foreign policy significance of NAFTA and the immediate damage its defeat would cause in U.S. relations with Mexico and the rest of Latin America. A President Clinton—or, for that matter, President Bush—could well decide to introduce some changes in NAFTA; but that would only postpone, not undo, the agreement.

But until NAFTA is finally approved by Congress, no U.S. administration is likely to make any commitments to other countries if they appear, even minimally, to jeopardize the prospect of approval. Aside from declaring that, after Mexico, the United States would next negotiate a trade arrangement with Chile, the White House has so far not proposed any strategy for pursuing hemispheric free trade.

The logical progression would be for NAFTA to become the core of an expanding hemispheric free trade area. There appears to be little sentiment in Washington for a series of bilateral agreements between the United States and specific Latin American countries. (The exception is a U.S. agreement with Mercosur, the Southern Cone free market area, because of its size.) A key unresolved issue in Washington is whether the NAFTA agreement should include a “docking” clause, which would set out the entry requirements and procedures for other countries to affiliate with NAFTA.

Increasingly, however, it appears that NAFTA will not include such a clause or at least any strong one. U.S. negotiators are concerned that Congress will not accept any agreement that could commit the United States to any more FTAs without full congressional review. Mexican negotiators also appear reluctant to set out, a priori, conditions for other countries to join NAFTA, rather than proceeding on a case-by-case basis. All in all, the United States, Mexico, and Canada appear to want to reach their own free trade accord, and only then begin to contemplate and formulate a strategy on how to proceed toward wider hemispheric free trade.

Keeping Washington's Attention

One danger is that Washington may, once NAFTA is in place, lose interest in its hemispheric trade initiative. A different administration may have other priorities. A successful GATT treaty may make regional trade agreements less attractive. A GATT failure may sour this country on multilateral trading arrangements generally. U.S.-Latin American relations may deteriorate because of disagreements on other issues. Or, simply, U.S. attention may be drawn elsewhere.

The United States, after all, has rarely been able to sustain a high level of interest in Latin America. The boldest U.S. economic initiative ever in Latin America, the Alliance for Progress, was conceived as a decade-long program, yet it began to unravel in about three years as U.S. attention turned to Vietnam.

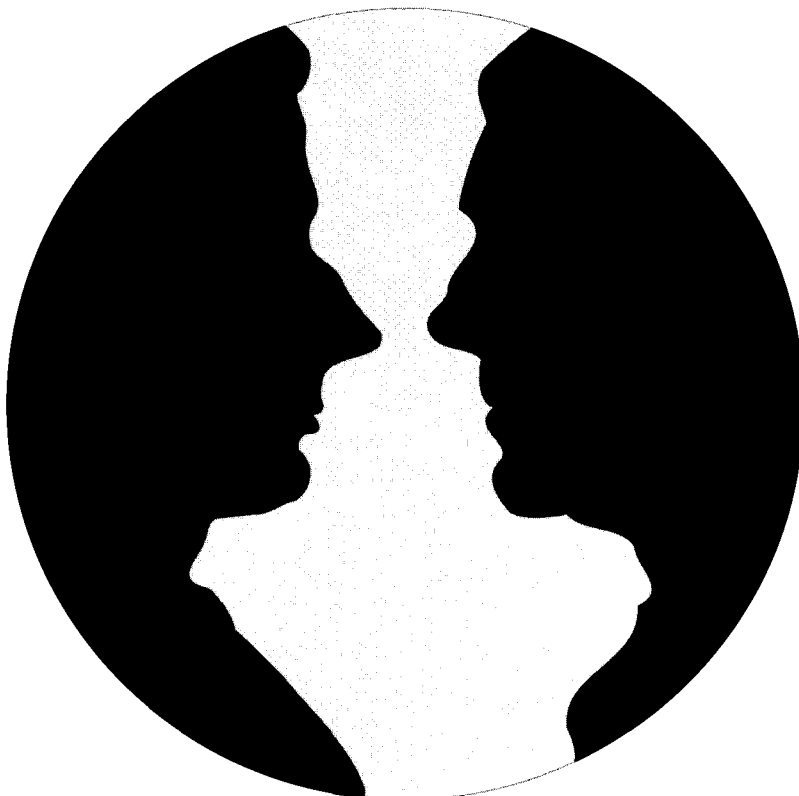
Events in Latin America may also frustrate progress toward free trade. Economic reform programs could be thwarted by the lack of financial resources or undone by growing internal opposition. The regional constituency for free trade itself may be far smaller than now appears. Business communities

in Latin America, for example, while rhetorically committed to free markets and free trade, are often opposed in practice when threatened with losing subsidies or protection.

And those Latin American countries able early to achieve free trade arrangements with the United States may try to prevent their extension to other countries to keep the benefits to themselves. There are, in short, hurdles, in both the United States and Latin America, to turning the idea of Western Hemisphere free trade into a practical reality.

One key to whether Washington will assign significant priority and energy to developing a WHFTA is Brazil. Only in Brazil are U.S. economic interests potentially as intensively engaged as they are in Mexico. Although U.S. trade with Brazil is now less than half what it is with Mexico, U.S. investment in Brazil is larger. If Brazil can recover its economic dynamism and provide a major market for U.S. products and a setting for U.S. investment, if it liberalizes its trade and investment regimes and is an active participant in Mercosur, it would be an attractive partner for the United States.

On the other hand, if Brazil's performance remains weak or if the country is not interested in any special economic relationship with the United States, then



U.S. interest in free trade could well wane. Conceivably the United States might still enter into free trade agreements with a few Latin American countries besides Mexico (or seek to bring them into an enlarged NAFTA). But without Brazil—with 40 percent of Latin America's population and economic activity—there can be no Western Hemisphere free trade system or economic community. ■

J O S H U A M . W I E N E R

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WINNERS AND LOSERS

Primary and High-Tech Care under Health Care Rationing

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Interest in health care rationing has exploded over the past five years. No longer solely the province of a few medical ethicists and other academics, rationing has moved to the center of the U.S. health policy debate. Spurring the interest is the extremely high rate of increase in the nation's health care spending, combined with the perception that other efforts at cost containment have failed.

Between 1980 and 1990, national health expenditures increased from \$240 billion to \$671 billion. Although both government and employers made good faith efforts to follow the advice of health care experts on how to control costs, they could not even get the rate of increase (10.4 percent a year) to decline significantly. The soaring costs, meanwhile, put health insurance beyond the reach of a growing number of people. The number of Americans without health insurance rose from 26 million in 1980 to 34 million in 1990.

The concept of rationing crops up everywhere. In a demonstration proposal recently rejected by the Bush administration, Oregon planned to cover all poor people under its Medicaid program, but at the price of explicit and public rationing of their medical care. Health insurers and benefit managers for large corporations are increasingly being asked by patients and providers to decide whether certain expensive, but potentially life-saving medical treatments will be reimbursed. Concern about rationing is reflected in the Medicare program for elderly Americans by such policy questions as whether Medicare should pay for liver transplants. Whether in these isolated cases or as part of comprehensive health reform proposals, rationing is now accepted as a serious option for cost containment and as a possibly necessary precondition for providing health care to the uninsured.

Virtually all major proposals addressing health care for the uninsured promise to provide universal access to "basic" care—some set of essential health services below which no one should fall. Although there is no widespread consensus on what constitutes a basic service package, the prevailing assumption is that primary care (low-technology, inexpensive, prevention-oriented care provided by family practitioners, pediatricians, internists, and obstetricians/gynecologists) should be provided at the expense of high-tech services.

Despite the assumed identity between primary care and "basic care," the relationship is not obvious, and cogent arguments can be made for alternative ways to allocate care. What is the right balance between primary care and high-tech services? An examination of the alternative systems of allocating resources in health care raises some pertinent questions but shows that so far no one approach has all the answers.

The Status Quo in the United States

Increasingly, the U.S. health care system is coming to be recognized as a de facto rationing system—and a perverse one at that. While some Americans, those with extensive insurance and substantial personal resources, have access to virtually all services imaginable, regardless of the cost and regardless of the benefit, the growing number of people without insurance lack guaranteed access to any but emergency services. In the United States, people, not services, are rationed.

Essentially, health care in the United States is allocated by whether one has health insurance and by what type of coverage it provides. The situation is most stark for the uninsured. People without health insurance must either pay out-of-pocket (if they can), rely on charity care (if they can find providers willing to supply it), or go without. Often they go

without. Those who are not insured receive significantly less health care than do those who are. Uninsured Americans in poor or fair health go to their doctor for care less than half as often as do the insured. And when they use a hospital, they receive fewer services, both primary and high-tech, than insured patients.

This form of rationing is largely the unintended result of other decisions about the health care system. That uninsured Americans make few visits to their doctor is the result of choices the nation has made about how health insurance will be distributed—not the result of a conscious policy decision that certain people should receive limited access to medical care.

For people with Medicare and private insurance, cost is not an important component of treatment decisions. Access to both primary and high-technology care is quite easy. After all, the United States has more high-tech services than any other country in the world. (High-tech services are what Americans like best about their system of health care.) Doctors, trained as patient advocates, order whatever tests and procedures they think are medically desirable, and insurers pretty much pay for whatever the doctor orders.

For the Medicaid-eligible population, the situation is more complex and varies from state to state. To be eligible for Medicaid, families with dependent children must have income no higher than about half the poverty line. (Pregnant women and young children can have incomes up to 133 percent of the poverty level.) The list of services offered Medicaid beneficiaries is comprehensive, but state Medicaid programs commonly impose arbitrary limits on physician visits and hospital days. (Again, pregnant women and children have fewer limits.) Medicaid reimbursement levels, especially for physician services, are much lower than private

insurance or Medicare levels—so low that doctors often simply refuse to accept Medicaid patients.

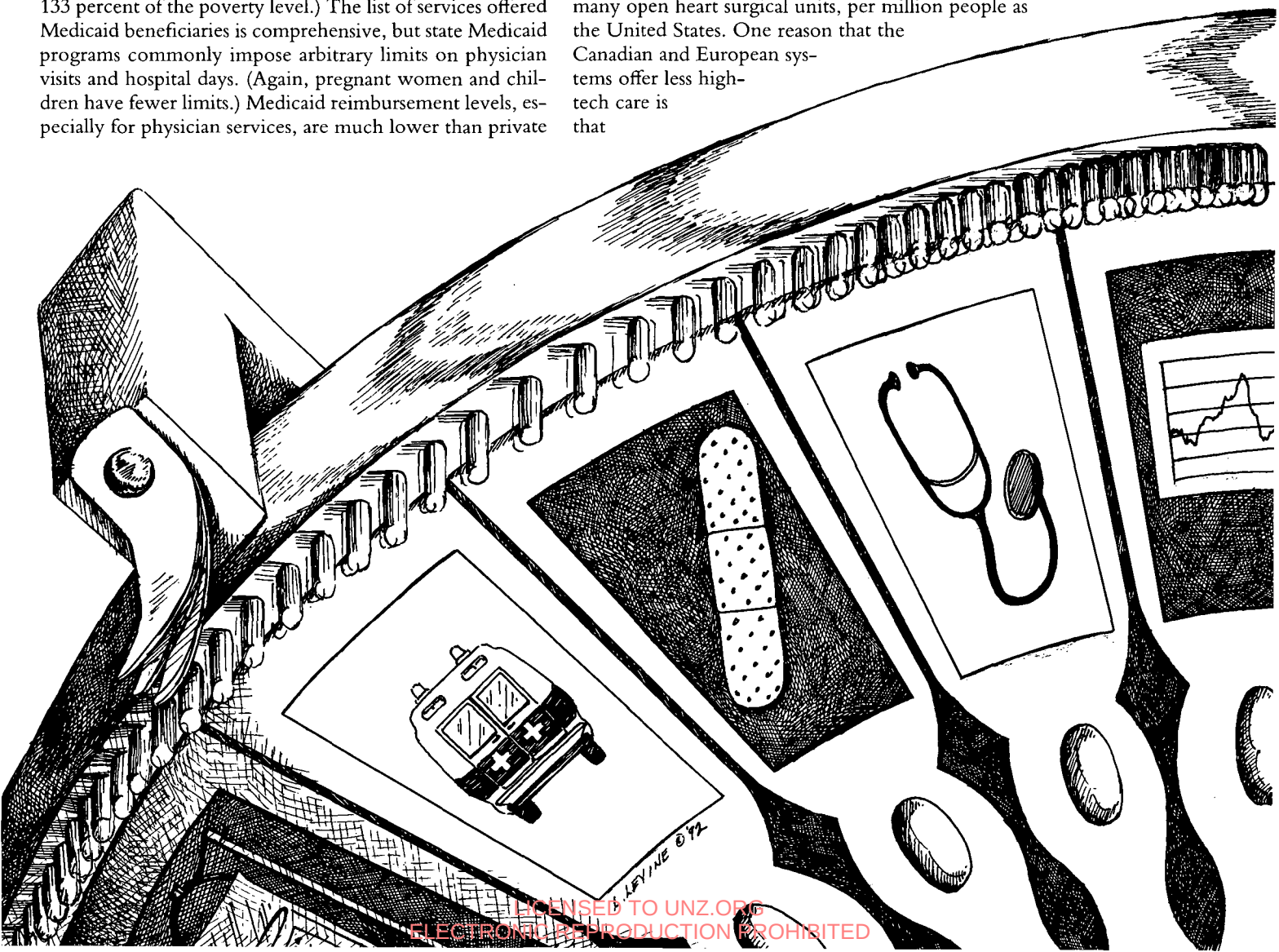
The status quo has few defenders. The easy availability of high-tech services has led both to high costs and to inappropriate use. Americans undergo many unnecessary, but costly, coronary angiographies, carotid endarterectomies, coronary artery bypasses, and upper gastrointestinal endoscopies. Moreover, public opinion polls find that Americans overwhelmingly believe that ability to pay should not stand in the way of receiving needed health care.

The European and Canadian Model

Canada and virtually all European countries provide health insurance for everyone through systems that emphasize primary care.

At the heart of their systems is a socially-agreed-upon health budget. Indeed, it is the fixed budget that provides a moral underpinning for allocating services between primary and high-tech care. Cuts in one area can be justified on the grounds that the money will be spent on other, higher-priority areas. Similar tradeoffs are not made in the U.S. system because it is impossible to say where the money “saved” by constraining any one area of health spending ends up.

The Canadian and European systems have a strong bias against high-tech care, and their patients have far less access to it than do Americans. For example, Canada has only a quarter as many magnetic resonance imagers, and half as many open heart surgical units, per million people as the United States. One reason that the Canadian and European systems offer less high-tech care is that



they lack money for specialized equipment. Fixed budgets make it more difficult to purchase new technology, because spending for new equipment displaces spending for existing programs. Another reason for the lack of emphasis on high-tech services is that doctors in these systems are more skeptical of technology than are their U.S. counterparts. Yet another is that the politics of distribution favors programs (like primary care) that provide some benefits to everyone over programs (like high-tech services) that provide benefits only to a relative few.

Although the European and Canadian systems emphasize primary care at the expense of high-tech care, they do so without explicitly calculating the costs and benefits of all services. And that failure to weigh costs and benefits in providing services results in several anomalies.

First, many ailments for which people seek treatment from their primary care physicians are relatively minor and self-limiting, whereas many illnesses for which people seek care from specialists are life threatening. It is not clear why it is better to provide treatment of the flu by a primary care physician than to provide open heart surgery, which may mean the difference between life and death. To be sure, the patient may still die after receiving the high-tech service, but few of us face that prospect when we receive primary care.

Second, while it is often asserted that preventive and other primary care services can reduce overall health spending by making us healthier, the claim is not well documented. Prevention services are highly desirable, but many are likely to increase rather than decrease total health spending. While prevention can be inexpensive on a per-person, per-treatment basis, it can get costly when applied to large numbers of people, most of whom would never get the disease. Moreover, some forms of preventive intervention, such as medication for hypertension, must be administered over a long period. Most of the diseases on which prevention efforts are focused, such as cancer and heart disease, are relatively quick killers. Preventing or postponing these diseases will leave us vulnerable to longer-term chronic illnesses, such as Alzheimer's Disease, that are expensive to treat and last a long time. This is not to say that preventive services are not desirable. They are. But they are not likely to save money.

Moreover, even if desirable, implementing the Canadian and European scheme in the United States would be difficult because of our vast capacity to provide services. In other countries, resources are limited to start with, and services must be allocated subject to those constraints. By contrast, the American health care system starts with excess hospital capacity and a very large number of physician specialists eager to practice their craft. Thus, the American medical care system has the physical means to perform almost any procedure imaginable, including those that the political system may consciously choose not to cover on a widespread basis.

Systematic Cost-Effective Analysis

Another option for deciding on spending or coverage priorities under a fixed budget is to systematically take the costs of health care services and the benefits they provide into account through cost-effectiveness or cost-utility analysis.

That was the approach Oregon first tried in establishing a "basic" set of services to extend to the state's uninsured

poor to replace the existing benefit package for the Medicaid population. But when the Oregon Health Services Commission released its first ranking of illnesses and their associated treatments in May 1990, the list was almost universally condemned. The problem was that some clearly valuable services were ranked low on the rating scale and on a par with some clearly less valuable services. For example, treatment of appendectomy and ectopic pregnancy, both of which are almost always fatal without surgery, were ranked in the middle of the list, along with tooth capping for pulp exposure and splints for temporomandibular joint disorder, two relatively minor conditions that are never fatal.

What explains these counterintuitive results? Mathematically, the problem is that the cost per benefit of certain high-cost, high-benefit procedures turned out to be equivalent to the cost per benefit of certain low-cost, low-benefit procedures. Oregon officials and others blamed the illogical results on poor data, computational errors, and the haste with which the list had to be generated.

Others believe that the methodology is fundamentally flawed because it does not take into account the powerful human need to save an endangered life, a proclivity labeled "the rule of rescue." People will not stand idly by when someone's life is visibly threatened and effective rescue measures are at hand. The rule of rescue argues that tooth capping for a thousand people is not equivalent to life-saving surgery for one ectopic pregnancy. However, these are exactly the kinds of tradeoffs that are inherent in proposals to cover primary care at the expense of high-technology services.

Cost-Effectiveness and Community Values

In its second ranking scheme, the Oregon Health Services Commission tried an effectiveness analysis based on rankings of general categories of conditions and treatments, ostensibly reflecting the values and opinions of the community. In brief, the commission developed 17 general categories of conditions and treatments (for example, an acute condition for which treatment prevents death and allows for full recovery, an acute condition for which treatment improves the quality of life but does not result in full recovery). Then the commission placed each of 709 condition and treatment pairs into one of the 17 categories. Within these categories, pairs were ranked by a "net benefit" formula that assessed the impact of treatment on quality of life and the clinical effectiveness of treatment. Importantly, the net benefit calculations ignored treatment cost considerations. Finally, commissioners moved certain pairs up and down the list "by hand" when they felt that they were improperly ranked. Here, the cost and effectiveness of various treatments played a major role in commissioners' decisions. The revised list was released in February 1991 and served as the foundation for the rationing proposal put forth by Oregon.

The revised list, which most observers have found much better than the original, finesses some of the debate over high- versus low-tech services by giving relatively high priority both to some highly valued low-tech services such as prenatal care and preventive care for children and to some costly, but potentially life-saving high-tech services, such as kidney and most bone marrow transplants.

Still, problems remain. Some of the rankings raise seri-

ous questions about how commissioners decided what should be ranked where. For example, routine dental care ranks far above hip replacements even though hip replacements substantially improve the quality of patients' lives. And vasectomies rank far above corneal transplants for cataracts, even though there are cheaper and highly effective alternatives to vasectomies, whereas blindness may result from cataracts. In general, the high rankings given to preventive services over interventions for acute and chronic problems raise questions about whether this subjective methodology adequately conforms to a more general rule of rescue. This broader formulation includes a concern for correcting or avoiding significant disability in addition to a concern for loss of life.

Second, the rankings are overly simplistic, failing to address the range of severity within diagnoses and the potential effectiveness of alternative treatments. To make the number of conditions and treatments manageable, commissioners compressed too many conditions and potential treatments into too few categories. Hence, each condition-treatment pair includes some people for whom the benefits of treatment are small and others for whom the benefits are large. For example, the benefits of surgery for colon cancer will be large for people whose tumors are limited to the lining of the bowel and who can thus recover fully, but small for those whose cancer has migrated to distant sites and for whom surgery is useful only in relieving obstruction of the bowel. And because the low-benefit treatment is covered, other conditions will go uncovered, a situation that is both inequitable and inefficient.

Finally, there is as much art as science in the Oregon Commission's final priority list. For most condition-treatment pairs, there are no empirical data on which to base the judgments of the likely effectiveness of treatment. During the final rankings about 40 percent of the condition-treatment pairs were moved substantially up and down the list by the commissioners. That so many pairs were moved "by hand" when the commissioners thought they were placed inappropriately may reflect community values, but it may also reflect idiosyncratic judgments of commissioners.

A Balancing Act

The present system of health care in the United States, with its explosive increases in costs and growing numbers of uninsured, is both unfair and financially unsupportable over the long run. As a result, policymakers will be looking increasingly at the option of rationing and the decisions it requires about the allocation of resources between low-technology primary care and high-technology specialty care. On balance, virtually all rationing schemes would make primary care more accessible than it is now. But the key question is: how much will improvements in access to primary care be at the expense of high-technology services?

All the methods now in use to determine the appropriate balance of primary and high-tech care are flawed and not sustainable either medically or politically. More research is urgently needed about the effectiveness of various procedures. Given the nation's failure so far to contain health care costs and given the need to provide all Americans with access to basic health services, whatever they may be, decisions about how to ration services are going to be made one way or another. ■

The Issue Is Inescapable

Health care rationing is an emotionally charged issue. Many people, unnerved by the thought of explicitly withholding certain kinds of medical care, reject out-of-hand the notion of rationing as too extreme a solution to the problem of controlling health care costs.

They may be right, at least for now. But even if they are, a growing number of proposals for health care reform call for a fixed budget for health care either at the provider or national level. President Bush's plan, for example, depends on heavy use of managed care in health maintenance organizations, where enrollees pay a set fee in advance (called a capitation fee) for a broad array of health care services. Senator Robert Kerrey and Senator George Mitchell, John H. LaLan and others at the Urban Institute, the Public Citizen Health Research Group, the National Leadership Coalition for Health Care Reform, and the AFL-CIO have all put forward reform proposals that would set a national budget for health care. Although their answers may be different, all of these schemes must ultimately address the very same questions as rationing proposals.

At the heart of rationing, capitation, and national health budget plans is the broad issue of resource allocation. If the pot of money is fixed, what services will be covered? Will these services be readily available or will there be waiting lists? By what criteria will coverage decisions be made? And who will decide? What will be the balance between primary care and high-technology services? As difficult as these questions are, no serious plan for health care reform can fail to address them.

M A R T H A D E R T H I C K

FEDERAL GOVERNMENT MANDATES



WHY THE STATES
ARE COMPLAINING

Hard pressed by recession, state governments have been complaining that Congress keeps passing laws ordering them to undertake expensive new programs—but without providing the money to do so. Complaints about federal mandates are not new. In 1980 New York City Mayor Edward I. Koch wrote bitterly of the “mandate millstone” in an article in *The Public Interest*, giving currency to the term.

The main concern of state officials is political: who will pay the costs of government? But their complaints raise constitutional issues as well. In various ways the Constitution protects the states’ existence as governments, having their own elected officials and the power to raise taxes and to enact, enforce, and interpret laws. How far can federal mandates be pushed without infringing on the states’ governmental character?

The federal government influences state governments in four main ways—through court decrees, legislative regulations, preemptions, and conditional grants-in-aid. As a quick review will show, all four have grown significantly more coercive in the past half century.

Judicial Decrees

Until the mid-1950s federal courts interpreting the Constitution had habitually told the states what they might *not* do. They had struck down literally hundreds of state laws. But they had refrained from telling states what they *must* do. This changed with school desegregation. In 1955, with *Brown v. Board of Education II*, the Supreme Court gave federal district courts responsibility for entering the orders and decrees to desegregate public schools. The Court’s ruling initiated a judicial effort to achieve racial integration with affirmative commands, telling school districts how to construct their attendance zones, where to build schools, where to bus their pupils, and how to assign their teachers.

Once courts and litigants discovered what could be done (or attempted) in the schools, other state institutions, especially prisons and institutions for the mentally ill and retarded, became targets. Nearly all state prison systems now operate under judicial decrees that address overcrowding and other conditions of prison life, and federal judges routinely mandate construction programs and modes of prison administration.

Needless to say, federal judicial mandates come without money, because courts have no way of raising money.

Legislative Regulations

Congress is also a source of affirmative commands to the states. When it imposes taxes and regulations—such as social security payroll taxes, wages-and-hours regulation, and emissions limits—on private parties, it must decide whether to cover state governments as well, for they and their local subdivisions are employers and, in some respects, producers.

For much of the nation’s history, Congress did not tax and regulate state governments because it con-

ceived of them as separate, sovereign, and equal. In a leading statement of this constitutional doctrine, the Supreme Court ruled in 1871 (*Collector v. Day*) that a federal income tax could not be levied against a county judge in Massachusetts. An earlier decision of the Court (*Dobbins v. The Commissioners of Erie*, 1842) had settled that the states could not tax the salary of an officer of the United States. Under 19th-century conceptions of federalism, it followed that the federal government could not tax the salaries of officers of the states.

When the Social Security Act of 1935 was passed, states as employers were routinely exempted from paying the payroll tax. Similarly, when the Fair Labor Standards Act of 1938 set maximum hours and minimum wages for industrial employers, no one would have imagined extending such regulation to state and local governments.

Yet as these New Deal measures were being enacted, the doctrine of sovereign immunity that had protected the states was collapsing. The Supreme Court overruled *Collector v. Day* in 1939. Eventually, under the nationalizing impact of the New Deal, Congress began regulating state governments just as if they were private parties. For example, Congress extended wages-and-hours regulation to some state and local employees in 1966, to the rest in 1974. The Supreme Court at first upheld the move, but then, in response to the law of 1974, changed its mind. In 1976 the Court forbade Congress from exercising its commerce power so as to “force directly upon the States its choices as to how essential decisions regarding the conduct of integral governmental functions are to be made” (*National League of Cities v. Usery*). But the standard proved impractical and was abandoned in 1985 (*Garcia v. San Antonio Metropolitan Transit Authority*). Speaking for the Court, Justice Blackmun wrote that the “political process ensures that laws that unduly burden the States will not be promulgated.” The Court seemed to wash its hands of the subject, leaving the states to the mercy of what Justice O’Connor in dissent called Congress’s “underdeveloped capacity for self-restraint.”

Preemptions

Preemptions are commands to the states to *stop* doing something and let the federal government do it. They are sanctioned by the supremacy clause of the Constitution, which requires that state laws yield to federal ones in case of conflict. Historically, preemptions have been not so much a calculated technique of intergovernmental relations as something that “just happened” as a byproduct of congressional action. It was left to the courts to rule, in response to litigation, whether preemption had taken place.

Recently preemptions have become both more frequent and more explicit. Congress passed more than 90 new preemptive laws in the 1970s and again in the 1980s, more than double the number for any previous decade. Partly because of pressure from the courts to be explicit, Congress now often does declare an intention to preempt. And the states naturally experience such declarations as coercion, even if they are being

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prevented from doing things rather than commanded to do them.

There is also a modern variant on the use of preemption, called by students of federalism “partial preemption.” In the 1970s, as it enacted a new wave of regulation, Congress hit on a way of making use of the states for administration. It would preempt a field—say, occupational health and safety or surface mining or air pollution control—but permit the states to continue to function providing that they adopted standards at least as exacting as those it stipulated. The Supreme Court upheld this technique (*Hodel v. Virginia Surface Mining and Reclamation Association*, 1981).

Technically, the states can refuse the federal government’s invitation to serve as administrators of its regulations. But in practice they have responded. “Each State shall . . . adopt . . . a plan which provides for implementation, maintenance, and enforcement” of federal air quality standards, the Clean Air Act says—and each state does. Better to be subordinate governments than empty ones.

Grant-in-Aid Conditions

Federal grant-in-aid conditions addressed to the states have been around at least since the Morrill Act of 1862, which gave the states land—30,000 acres for each member of Congress—to endow colleges in the agricultural and mechanic arts.

In theory, states have always been able to refuse federal grants. In practice, they have generally found them irresistible. And as time passed, states’ dependence increased: aid was habit-forming. In 1965 federal highway grants passed \$4 billion a year. In 1970 grants for public assistance, including Medicaid, passed \$7 billion a year. Altogether federal grants in 1970 amounted to nearly 30 percent of states’ own-source revenues. It is absurd to hold, as constitutional doctrine formally does, that such grants can be rejected, and the burden of the accompanying conditions thereby avoided.

Over time, the conditions of grant programs expanded in scope and detail. Successful political movements left their mark on grant programs through conditions that apply to all or most grant programs. The rights revolution of the 1960s and 1970s, for example, left a legacy of anti-discrimination requirements, and the environmental movement a requirement that environmental impact statements be prepared for federally aided projects.

Similarly, conditions have multiplied program by program. Section 402 of Title IV of the Social Security Act of 1935 took 2 brief paragraphs to describe what should be contained in state plans for aid to dependent children. By 1976 section 402 had grown to 9 pages; by 1988, to 27.

Also, Congress in the 1970s began threatening to withhold grants, particularly those for Medicaid and highways, to achieve objectives connected only loosely or not at all to the underlying purpose of the grant. When Congress set a national speed limit of 55 miles per hour in 1974 and a minimum drinking age of 21 in 1984, it did so by threatening to withhold highway grants from states that failed to comply.

Finally, the language of grant-in-aid statutes has become more coercive. Federal law makes some Medicaid services “mandatory” and Congress keeps adding to the list.

From time to time presidents, especially Republicans, have tried to reduce and simplify grant conditions. The revisions that Nixon, Ford, and Reagan achieved, in the form of revenue sharing and block grants, have been modest and, in the case of general revenue sharing, short-lived. Conditioned grants for specific purposes have persisted and always predominated.

Historically, grant-in-aid conditions could be enforced only by administrative action, primarily the threat to withhold the grant. Because withholding was self-defeating, it was not often used. Federal administrators got what compliance they could through negotiation. However, with the rights revolution and the rise of judicial activism, many grant-in-aid conditions became judicially enforceable, particularly in programs of AFDC and education of handicapped children. A whole new set of commands emanated from an awe-inspiring source, the courts.

As grant conditions became more coercive, grants did not keep pace. Grants as a share of states’ own-source revenues reached a peak at 32 percent in 1976 and then began to fall.

Do Mandates Matter?

The rise of the affirmative command, occurring subtly and on several different fronts, constitutes a sea-change in federal-state relations. The states have been converted from separate governments into subordinate ones, arguably mere “agents” in some programs. In constitutional significance, the change is comparable to the transformation by which the federal government ceased over the course of many years to be a government of limited, specified powers and became free to engage in any domestic activity not prohibited by the Bill of Rights.

That mandates developed only in the past 40 years does not necessarily mean that they are contrary to the Framers’ intentions. That depends on which Framers one consults. Today’s federalism is what the losing side of 1787 feared, but arguably what the winning side hoped for. Madison, after all, went into the Constitutional Convention saying that the states should be retained because they would be “subordinately useful.” That is precisely what they have become. And there is at least a hint in *The Federalist* that affirmative commands would be acceptable. Number 27, written by by the ardently nationalistic Hamilton, anticipated that the federal government would employ the states to administer its laws. It is hard to see how that could have happened in the absence of mandates.

Yet most fundamentally, *The Federalist* saw federalism as a way to safeguard the public against abuses of governmental power and to sustain republicanism, the great central principle of the American regime. As Hamilton argued in number 28, “Power being almost always the rival of power, the general government will at all times stand ready to check the usurpations of the state governments, and these will have the same disposition towards the general government. The people,

by throwing themselves into either scale, will infallibly make it preponderate. If their rights are invaded by either, they can make use of the other as the instrument of redress.”

Indeed, the institutions of federalism can be used by the people to play different levels of government—and through them different policy choices—off against each other. One sees this happening most vividly in the prolonged contest over abortion policy, in which the federal courts “corrected” the restrictive excesses of state laws in the early 1970s and state legislatures responded by “correcting” the libertarian excesses of *Roe v. Wade*, and so on—in a heated inter-governmental exchange that threatens to be endless because the rival political movements are incapable of compromise.

Today mandates come in so many different forms and with so many different purposes that it is difficult to speak of them as a class. Limited, for the sake of discussion, to those that compel expenditure, they clearly raise important questions about republicanism. Judicial mandates come from a body that is not elected at all; congressional mandates, from a body that is not responsible to the various state electorates. When the federal judiciary commands the states to spend more on prisons and Congress commands them to spend more on Medicaid, they are making decisions that state electorates have no way to review. State officials lose their ability to weigh competing claims on state budgets. Of course, no such weighing is done at the federal level, where mandates are produced in isolation from one another. Neither the courts nor Congress, framing commands to the states, asks the question, “how much, compared to what?” that is crucial to rational, responsible policymaking. At some point, federal commands to the states may come to implicate the guarantee clause of the Constitution: “The United States shall guarantee to every state in this Union a Republican Form of Government.”

Can Mandates Be Curbed?

How strongly state officials oppose mandates may be questioned. Accepting subordination as a fact of life, they have produced scattered complaints but not concerted or doctrinaire opposition. Although the loss of budgetary discretion is a serious problem for governors, it is hard for all 50 of them to get together on anything, much less take a public stand *for* overcrowded prisons or *against* medical care for pregnant women.

Largely devoid of interest in constitutional issues except for its own battles with the president, today’s Congress is not much inclined to contemplate the deeper issues of federalism and to ask, self-critically, whether or where it should exercise restraint in its use of mandates. If it can expand the benefits of government while imposing much of the cost on other governments in the system, why not do it?

By contrast, the Supreme Court, habituated to thinking in constitutional terms, and made conservative by a series of Republican appointments, is engaged in a wide-ranging retreat from the use of mandates. In school desegregation, prison administration, and en-

forcement of grant-in-aid conditions, not to mention voting rights, abortion, and *habeas corpus*, the Court has signaled that it will show more deference to the states. But it is one thing for the Court to practice self-restraint and quite another for it to attempt to restrain Congress. The Court does not lightly challenge a co-equal branch of government, nor has it had much success in the past in devising practical and enduring standards to protect the state governments.

There remains, nonetheless, a strong case for federalism, as Alice Rivlin, for one, has urged in the 1991 Webb Lecture before the National Academy of Public Administration and in *Reviving the American Dream*. As Madison foresaw, the task of governing so vast a country is too formidable for one government alone. It is significant that someone as thoughtful and experienced as Rivlin, whose whole career has been based in Washington and devoted to shaping national policy, should conclude that national uniformity is a liability in some areas of government. She names education and skills training, child care, housing, infrastructure, and economic development as activities that are “likely to succeed only if they are well adapted to local conditions, have strong local support and community participation and are managed by accountable officials who can be voted out if things go badly.”

Rivlin’s vision of revitalized state government calls, appropriately, for interstate equalization of revenues, to be achieved—and here her proposal becomes radical—by the states’ adopting “one or more common taxes (same base, same rate) and sharing the proceeds.” She suggests a single state corporate income tax or a uniform value-added tax, shared on a per capita basis and substituted for state retail sales taxes. To achieve this, the states would need the “blessing and perhaps the assistance of the federal government.”

Indeed. There is no plausible mechanism, formal or informal, by which the 50 states could voluntarily agree on a common tax. It would have to be imposed by Congress in a fresh stroke of centralization—a mandate, if you will—entailing preemption of a particular tax source and dedication of the proceeds to the states, with no conditions attached. The absence of conditions proved not to be politically durable when general revenue sharing was tried in the 1970s. State political leaders might be forgiven if they doubt whether Congress would be willing to take the heat for imposing a new tax while turning the proceeds over to them.

Perhaps no other of our governing institutions has been subject to so much change and yet so resistant to planned, deliberate reform as federalism. Its history is one of centralization, steady and seemingly irreversible. Yet the case for lodging a large measure of domestic responsibility and discretion with the states and their local subdivisions remains strong. So is the case for the states having governments—republican governments chosen by state electorates and accountable to them, and capable of raising their own revenues and deciding how those revenues should be spent. It is one of the ironies of federalism that deliberate acts of decentralization, such as Rivlin proposes, depend on centralization as a precondition. ■

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The Yugoslav Wars

BY SUSAN L. WOODWARD



As the international community moved toward intervention in Bosnia-Herzegovina, civil war threatened in Serbia, and the probabilities rose of renewed war in Croatia and its spread to Kosovo, Macedonia, and beyond, the West was still struggling to define the conflict. Its perplexity in settling on a definition, and therefore a course of action, reveals why this is the first battle of the "new world order." Its established habits of classification and response clearly unsuitable to the challenge, the international community is redefining its own relations and the institutions and character of the world order that will replace the Cold War as it reluctantly confronts the Yugoslav wars.

The search for meaning is evident in the grasping for analogies from the past: Iraq, Lebanon, Viet Nam, Nazi Germany. Is the conflict a case of aggression by the state of Serbia? A civil war in which no party that intervenes can remain neutral? A quagmire of guerrilla warfare? Religious genocide? Most popular is the definition that justifies inaction: the wars reflect "a thousand years of ethnic hatreds repressed by communism." However tragic, the wars are thus an unavoidable cost of the anti-communist fight for "national freedom."

In the first months after open war began in Slovenia on June 27, 1991, policy analysts in Western capitals insisted that "this is not 1914." They meant that the inveterate "tinder box" of the Balkans was no longer of world consequence because great powers were not in competition over its territory. The best policy was to ignore the war or to keep it contained within the borders of former Yugoslavia.

The evolution of definitions has been driven by Western interests and capacities to act. Until the refugee flow hit the West

directly, the Yugoslav conflict served largely as a testing ground for issues considered of real interest. Calling it a "European problem," the United States deferred to the European Community's request to see whether it could create a common foreign policy without the United States. UN Secretary General Boutros-Ghali called it a "Rich Man's War" to draw attention to bias in the West's astonishing inattention to Somalia and demand for new UN resources when donors were paying less. Proponents of new security arrangements in Europe used the conflict to challenge whether NATO could have a post-Cold War role and to put substance into the Conference on Security and Cooperation in Europe. Much of Western policy toward Yugoslavia has been shaped, in fact, by the implications of Yugoslavia's disintegration for the Soviet Union and its dissolution, and what the United States and Germany in particular feared from nationalism run amuck in a population with tactical nuclear weapons and the potential of refugees in the hundreds of millions.

Most notable are the divisions among Western powers on Yugoslavia, revealing perceptions of national interest and balance-of-power competition following historical patterns at least as venerable as the Balkan conflicts. Moments of concert sufficient to prompt action have arisen only when they could agree to define the problem as aggression. Squeezing the Yugoslav troubles into familiar molds of two-party conflicts, territorial expansion, and land grabs by military force, the Brioni Agreement of July 7, 1991 negotiated by the EC forced the Yugoslav army to retreat from Slovenia. Likewise, the EC recognized the sovereignty of Slovenia and Croatia to "put a stop to Serbian aggression"; and the

United States reentered the fray last April when the war in Bosnia-Herzegovina persuaded the State Department that Serbian President Milošević was the "primary aggressor" and should be subject to all the economic and diplomatic sanctions the international community could muster against him.

The process of definition even changed the nature of the Yugoslav conflict. What had been a constitutional conflict over their common state became, once the EC recognized Slovenia and Croatia, a conflict *between* states over borders, allegiances, and citizens' rights. Gone was the only political arrangement thus far found to protect the multinational reality of Bosnia-Herzegovina, the separate existence of Macedonia, and a political solution to the Serb question and to minority rights. Largely silent is the multitude of Yugoslav voices articulating their conflicts. Even representatives to the EC-sponsored political negotiations over the Yugoslavs' future were selected according to the EC's definition—leaders elected in the first competitive party elections in more than 50 years in a Yugoslavia that no longer exists, excluding minorities and non-ethnic parties and citizens' groups. Unresolved is the core of the conflict: between the right of self-determination on the principle of nationality and the existence of multinational, mixed populations.

The Yugoslav tragedy is far from over. The large questions remain: the basis of sovereignty in the new world order and guarantees of minority rights. So far the West, surprisingly ill-prepared for victory in the Cold War, continues to react in largely defensive terms to the difficulty of the post-communist transition. As in 1914, the issues are being played out in miniature in the Balkans before we see the full canvas. ■

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Cable-Telephone Competition?

BY ROBERT W. CRANDALL



The gulf between Congress and the Federal Communications Commission over the direction of U.S. telecommunications policy is widening. Congress, as usual, seems intent on insulating established monopolies from competition and then regulating them. Its chosen regulator (the FCC), on the other hand, is equally intent on admitting competition, thereby obviating much of the need for regulating rapidly changing high-technology industries.

On July 16 the FCC voted to permit telephone companies to offer over their networks a "video dial-tone" service—a high-capacity video distribution service through which third parties could offer households myriad television programs. The FCC also urged Congress to repeal the provisions of the 1984 Cable Act that prohibit telephone companies from supplying cable programming services themselves.

That same day, the FCC announced it would consider allocating some choice radio spectrum to new personal communications services, radio-based mobile telephone services that hold great promise for competing with cellular and conventional telephone service. And on August 5 the FCC approved the purchase of Teleport communications, a New York fiber-optics carrier, by Cox Enterprises and Telecommunications, Inc., two of the nation's largest cable television companies. Cable companies such as Cox and TCI have been considering using fiber optics and the new personal communications services to compete head-to-head with telephone companies. With the purchase of Teleport, such competition may be just around the corner.

The FCC is clearly signaling its willingness to confront powerful interest groups and Congress in crafting a telecom-

munications policy based on competitive markets rather than balkanized, regulated monopolies. By allowing telephone companies to provide a video distribution service over their networks—probably through fiber-optic facilities—the FCC skirts the 1984 Cable Act's prohibition on telephone-company provision of cable television service. True, telephone companies will not be allowed to provide programming over their video channels unless Congress relents. The FCC has opened the door to cable competition, however, because third parties will be able to offer programs over the new telephone-company channels.

Opposition to the FCC's video dial-tone ruling has come predictably from the cable television industry, which is facing renewed rate regulation by Congress. Under the 1984 Cable Act that originally deregulated cable rates, Congress ratified the system of municipal franchising of cable television service. If you or I lease a channel from our local telephone company to offer households dial-up movies or "Live from La Scala" operas and ballets without a municipal franchise, are we violating the Cable Act because we have no local cable franchise? Congress will surely object and may seek to clarify its legislative intent.

Opponents of the FCC's decision to give choice spectrum to new personal communications services have also been vocal. Senator Ernest Hollings has already indicated his disapproval because the decision may require other claimants of this spectrum to move to less desirable frequencies. But the value of personal communications services lies in the competition they would provide for traditional telephone carriers, and one presumes that Congress still sees value in competitive marketplaces.

If this value exceeds the value of the spectrum to its current occupants, the FCC should allow the newcomers to buy out the incumbents, who presumably would simply move to other frequencies.

Once competition in phone service develops, there would be little reason to regulate rates. Nor would policymakers need to keep telephone companies from offering new services—like cable programming or electronic want ads.

The telephone industry intends to oppose the FCC's third action—the purchase by cable companies of Teleport. The purchase violates the Cable Act's prohibition of joint telephone-cable service in the same market, according to the industry trade association, the United States Telephone Association.

Given Congress's concerns about the need to keep the powerful Bell Operating Companies from exploiting their local monopoly positions by extending into new services, one might have expected congressional applause for the FCC's action on spectrum for personal communications services. And given congressional support for reregulating cable television on the grounds that cable has exploited its monopoly position, why would Congress not welcome the FCC's decision to allow telephone companies to become video common carriers?

A few years ago, a noted constitutional scholar, Bruce Ackerman, suggested that regulatory agencies should reassert their independence and re-ignite the New Deal ideal of expert agencies executing policy consistent with the public interest, but without political interference. How ironic that a Republican FCC is following Ackerman's prescription, but is likely to encounter fierce opposition from liberal Democrats in Congress. ■

Robert W. Crandall is a senior fellow in the Brookings Economic Studies program. Here he updates his article, "Regulating Communications: Creating Monopoly While 'Protecting' Us from It," in the Summer 1992 issue of The Brookings Review.

Japan's Peacekeeping Forces

BY PHILIP TREZISE



One of the, arguably few, encouraging events on the international scene since the end of the Cold War has been Japan's decision to allow its Self-Defense Forces to join in United Nations peacekeeping activities.

Hedged about with restrictions though it was, the decision promises the UN needed manpower and skills. It may help advance Japan's justifiable claim to a Security Council seat. Worth remarking also is that the process by which Japan made its decision has confirmed that its acquired aversion to militarism continues to be, after nearly 50 years, a domestic political force.

Japan's pacifism is written into its 1947 constitution, in words attributed to General Douglas MacArthur, Supreme Commander for the occupying Allied Forces, or at least to his staff. According to Article 9, "the Japanese people forever renounce war as a sovereign right of the nation." Furthermore, "land, sea, and air forces, as well as other war potential, will never be maintained."

A first test came soon, with the 1950 invasion of South Korea. MacArthur ordered a reluctant Japanese cabinet to form a 75,000-man "police reserve force" to fill in for the U.S. occupation troops sent to Korea.

In 1951 the United States and Japan signed a mutual security treaty in which Japan pledged itself to assume increasing responsibility for its own defense. From that commitment emerged in due course the Self-Defense Forces.

The SDF did not come into being without opposition. The often hapless Socialist Party read Article 9 literally and insisted that the SDF was unconstitutional. The majority Liberal Democratic Party, having its own doubts, promised in 1955 to revise Article 9. But

when the ensuing election failed to provide the needed two-thirds majority, the LDP abandoned, for good, the idea of constitutional revision.

The Supreme Court provided a kind of half-way house by ruling in 1959 that Japan had an inherent sovereign right of self-defense, and by choosing not to rule on the constitutionality of the SDF. There the matter has remained.

Through the years the SDF has acquired an existential legitimacy, though its size and role are severely constrained. The land army is tiny, the navy is essentially a destroyer force, and the air force has no long-range bombers. Nuclear weapons, always labeled defensive by the nuclear powers, are prohibited in Japan by policy *and* statute.

Over the postwar era, Japan and the United States put together a seemingly durable arrangement built around the tacitly compromised Article 9 and an American forward strategy in East Asia that relied on U.S. bases in Japan. A willing Japanese government increasingly paid the bills. With the waning of the Soviet threat, the arrangement had to come into question in both countries. Still, it took the Persian Gulf war to raise in Japan the issue of whether the SDF could be dispatched overseas.

Here was a war basically about the price of oil, an obvious concern for Japan. Yet Japan was wholly absent from the international force assembled to deal with Iraq. Criticized internationally, Prime Minister Kaifu asked the Diet for authority to send a 1,000-member "peace cooperation team" of civilians and unarmed SDF personnel to the Gulf. That failed, though Japan did take a strong financial role in the war: \$13 billion, raised by new taxes.

After the war Kaifu tried and failed again to get the Diet to

commit the SDF to UN peacekeeping operations. A new prime minister in the last months of 1991 was similarly unsuccessful. Finally, after months of LDP negotiations with two small opposition parties, the Diet gave its assent last June. Tokyo may now deploy abroad up to 2,000 SDF members for noncombat UN activities such as logistical support, medical assistance, and election monitoring. More hazardous operations, which could call for the use of small weapons in self-defense, will require a new debate and new legislation.

The Socialist and Communist opposition, as expected, saw in the move a violation of the constitution (plausible) and a step toward remilitarizing Japan (wildly farfetched). China, predictably, professed to renewed worry about a militarist revival. Elsewhere its reception was, well, tepid.

Realistically, what the affair tells us is that Japan remains addicted to the view that a military renaissance would be a bad idea. If the step toward participation in international peacekeeping has been tentative, that is what the political situation allowed.

Alone among the big industrial powers, Japan sends no weapons merchants to arms bazaars in Southeast Asia and the Middle East. It is first or second among the development aid givers, and it seeks, like the International Monetary Fund and the World Bank, to use aid to discourage the waste of resources on armaments. It pays its UN dues on time and has been generally a constructive force in the principal multilateral institutions. For the present anyway, its, for some, unaccountable preoccupation with peaceful pursuits is not the worst contribution that could be made to a new world order. ■

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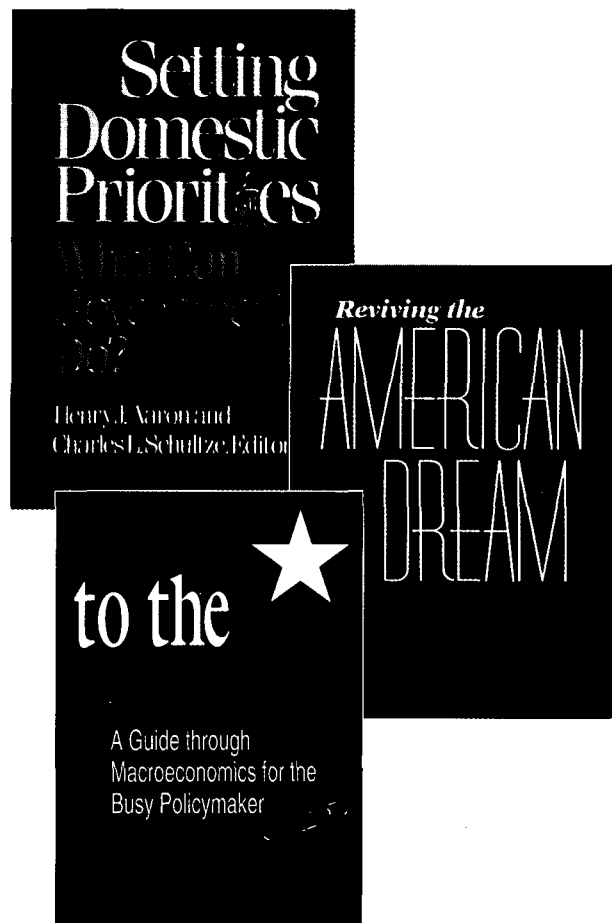
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